THE WORLD BANK IN AFRICA

HEARING

BEFORE THE

SELECT COMMITTEE ON HUNGER
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

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THE WORLD BANK IN AFRICA

THURSDAY, JULY 23, 1987

House of Representatives,
Select Committee on Hunger,
Washington, DC.

The select committee met, pursuant to call, at 10:32 a.m., in room 2359-A, Rayburn House Office Building, Hon. Mickey Leland (chairman of the committee) presiding.

Members present: Representatives Hall, Carr, Penny, Espy, Flake, Mfume, Gilman, and Bereuter.

OPENING STATEMENT OF HON. MICKEY LELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Chairman **Leland**. Good morning. Today, we are looking at the role that the World Bank is playing in development in Africa, and, in particular, the role of the soft loan window of the Bank known as IDA—the International Development Association. We will also examine IDA's efforts to address chronic poverty through its lending programs and IDA's growing role in supporting policy reform efforts in Africa.

Before we take a closer look at IDA, I would like to emphasize its importance for Africa, and therefore the importance of the U.S. contribution to IDA this year. As this committee well knows, Africa is poised at a turning point in its development. The continent has only recently survived a devastating famine, and there is some question about the degree to which it has indeed survived, and while certain areas continue to need large amounts of emergency assistance, most of Africa is turning to issues of long-term development. As Africa has so painfully learned, the threat of famine will only be conquered when sustainable and widespread development takes place.

At last year's U.N. Special Session on Africa, African leaders committed their countries to undertake difficult policy reforms in order to promote development. Reforms, however require support and assistance. U.S. bilateral aid to Africa is not expanding to provide that support; rather, the question now is the level of reduction in our development and economic assistance programs.

Fundamental policy reform, which we have long advocated and indeed insisted upon, is not being adequately assisted by our foreign aid programs. It is in this respect—in supporting policy changes and financing essential development projects—that IDA is most important. Under the agreements for the next IDA replenishment, lending to Africa will increase from roughly 35 percent of IDA lending to 40 or 50 percent. This would result in up to $6 billion of highly concessional lending to Africa over the next 3 years, obviously a substantial sum.

Supporting funding for IDA therefore translates into supporting funding for Africa. If we are committed to development in Africa, we must recognize that IDA is one of the more effective tools we have to promote that goal. There are legitimate concerns about certain aspects of IDA lending and we will address some of them in our hearing today. We should not lose sight of the fact that without a significant U.S. contribution, we cannot hope to correct IDA's problems or alter its course. And by making a significant U.S. Government contribution to IDA, we can help solve Africa's grave and worsening problems.

I would like to thank in advance our witnesses for sharing their views on the World Bank in Africa. We look forward to hearing your testimony today.

OPENING STATEMENT OF HON. DOUG BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Let me now turn to Mr. Bereuter.

Mr. **Bereuter**. Thank you, Mr. Chairman. This hearing on the World Bank in Africa is both important and timely, and I commend you for scheduling it. It is important because the economic and physical well-being of many African nations and peoples continues to depend in significant part on how much support for their development efforts is available from the international community. The World Bank's soft loan window, IDA, will be the main source of these outside funds in the immediate years ahead. I believe the hearing is timely because the legislation to provide for U.S. participation in these IDA programs as well as in the capital increases for the African Development Bank and other MDB activities are to be considered in the full Banking Committee and the Appropriations Committee. In fact, I think that the Foreign Operations Subcommittee of Appropriations may well be considering this subject today.

This committee's attention to the ways in which the World Bank can and should help to eliminate the scourge of hunger in Africa should help the Congress and the American people realize the importance and benefits of the U.S. participation in IDA. I have the privilege of serving as the ranking member of the Banking Committee's Subcommittee on International Development Institutions and Finance which recently completed its mark-up of the MDB authorizing legislation under Chairman Fauntroy. In my remarks, I will give some of the brief background of this legislation as I think it relates to our topic today, and then explain some of the actions already taken by the subcommittee to shape U.S. policies toward the MDB's.

International negotiations on the eighth replenishment of IDA were concluded last year. The pledges from governments around the world to support this long-term concessional loan window for the very poorest countries came to $12.4 billion over the next 3 years. The U.S. pledge was $2.875 billion, a little over $900 million a year for aid to the 59 IDA-eligible countries. An encouraging sign is that every dollar of these U.S. funds in 1988–90 will be matched by more than $3 of contributions from other governments compared to only a one-to-one match when IDA was founded in 1960.

In these negotiations the United States strongly argued for making aid to Africa a higher priority for IDA. As a result, 45 to 50 percent of the $12.4 billion will be going to sub-Saharan Africa. How will the money be spent? Here the administration and the U.S. Congress have an important role to play. As the single largest donor country, the United States has traditionally been the policy leader and most careful overseer of the work of the World Bank and other regional multilateral development banks. Though we can and we do get out voted in the board upon occasion, U.S. persistence in pushing policies that encourage free markets, that improve economic management, that focus attention on meeting the basic human needs of the people, and that avoid environmental disasters have gradually shaped the way these institutions use all of their funds from all of their members and donors.

Future policy directions for the MDB's according to the amendments unanimously adopted in the Banking Subcommittee focus on four major concerns.

First, continuing concern to make sure that development funds are maximizing the benefit to the poor and to the hungry and minimizing the negative impacts on them when adjustment programs are undertaken. Special attention is needed to reach disadvantaged groups like women and to make sure that priorities within sectors like education and health provide basic services to all.

Second, concern that environmentally sound policies are followed and promoted. We have heard of some environmental disasters of the past, such as the major projects in Brazil. Africa is probably the biggest challenge in the world in environmental management because of its many microclimates and poorly known ecology. There will be little chance for environmental improvement there unless all of the knowledge and cooperation and coordination and help in general that the public and the private sectors can muster be brought to bear on policy choices.

Third, concern that economically sound policies are followed, such as avoiding loans for export production of commodities already facing oversupply and depressed prices in world markets.

And, last, the need to begin to explore ways that nongovernmental organizations—NGOs—and the MDB's can work together for development. The energies of the nongovernmental sector are especially apparent in our own country where the work of private voluntary groups, professional societies and interest groups is indeed the very fabric of community life. In developing countries these groups also exist and often touch the lives and concerns of disadvantaged groups in ways that international organizations and governments really cannot duplicate effectively. Yet the policy dialogue that the World Bank can conduct with a government on a subject like allocation of governmental budgets away from the subsidies to inefficient governmental enterprises and toward, instead, basic education or microenterprise credit programs can have a major impact, and a positive one, on the context within which NGO's operate.

I am particularly pleased with the innovations that we have included in the Banking Subcommittee bill encouraging NGO work and cooperation. The legislation in general in that bill encourages the World Bank to establish a grassroots collaboration program to develop improved mechanisms for involving NGO's in borrowing countries directly and indirectly in all stages of the design, implementation and monitoring of the development projects with a view toward harnessing the complementary strengths of these local groups and of the World Bank in the area of environmental protection and poverty alleviation.

Mr. Chairman, thank you for permitting me to give this general opening statement about what we are doing in the Banking Subcommittee that is relevant to this hearing.

Chairman Leland. Thank you very much for your contribution.

The gentleman from Michigan, Mr. Carr. The gentleman from Maryland, Mr. Mfume. The gentleman from New York, Mr. Flake.

There being no more statements to be offered, let me now introduce our first witness, Ambassador Kane. His Excellency Falilou Kane is the Ambassador of Senegal to the United States and is a keen observer of political, economic, and development issues in Africa. His nation is currently engaged in significant policy reform—a phrase we will hear often today, I am sure—and is an important recipient of IDA funding. We thought it appropriate to open today's hearing with an African perspective on the role of the World Bank and IDA in Africa.

Mr. Ambassador, we welcome you to the hearing and look forward to your statement. Please come forward and take a seat there. Welcome, Mr. Ambassador.

STATEMENT OF HIS EXCELLENCY FALILOU KANE, AMBASSADOR OF SENEGAL TO THE UNITED STATES

Ambassador Kane. Thank you.

Mr. Chairman, I understand that time is limited. I had prepared, and I think it's circulated, a document putting the emphasis on how we in Africa think that IDA is very important. Let me start with a quotation which was in the Washington Post of December 21, 1986. I quote: "If Americans seriously want to help Africa, IDA is their best bet."

Why? Because today IDA is the principal source of concessional aid for low-income countries. The cumulative total credits granted by IDA amounted—on June 30, 1986, since the beginning—to $39.7 billion, of which a single country, India, was granted $13.5 billion. If today India and Pakistan don't have the problem Africa is facing, we can say that it is mainly IDA has succeeded in the subcontinent of Asia to solve the food problem. There has been a notable increase in the share of Africa since the beginning, and today about 36 percent of IDA credits go to Africa.

In the early years, IDA assistance was largely directed toward investment in infrastructure; more than half of IDA credits went to this sector. But today, new direction has been given and agriculture is the main sector. About 45 percent of IDA credits go to agriculture, followed by 29 percent for infrastructure, 15 percent for social sectors.

Here we want to emphasize, Mr. Chairman, that the importance of IDA operations for the future of Africa is great, particularly for the sectors of policy adjustment where growth is pursued by many African countries. The deterioration of the economic situation of the African countries since the early 1970's and the far-reaching policy reforms undertaken by African governments in the region amply justify an expansion of IDA operations in sub-Saharan Africa in the coming years. So an increase in IDA credits to sub-Saharan Africa under IDA–VIII would allow the World Bank to strengthen its support to growth-oriented adjustment policies in Africa during the 1980's. Africa's share in IDA resources should, in our opinion, reach the target of 50 percent during the period 1988–90.

The needs are there. It had been first in the U.N. Program of Action for which, you remember, the president of Senegal, who was the chairman of OAU, played a key role convincing all African governments to accept, to go through these reforms and to pledge to make all these reforms become reality. The U.N. Program of Action had set some targets for the period 1986 to 1990 to mobilize $128 billion for the recovery and development of Africa. From this figure, $82.5 billion should come from Africans themselves, that means about 64 percent of the total amount; and we counted on the external resources, the international community, for $46 billion, that is around $9 billion every year. So IDA–VIII fits perfectly in this range because we had decided and would have pledged to make the reforms and to use mainly the money primarily for agricultural development; second, for sectors in support of agriculture; third, for drought and desertification—this is where it lies mainly, what is being done in the environmental area; and, fourth, for human resources and development. And, of course, all of these are laid out in reforms which are conducted.

Today, 34 countries out of the 45 of sub-Saharan Africa have undertaken significant reforms, and 26 of these countries have programs with the IMF. I could say that in Senegal as far as 1980 we had undertaken reforms. We have programs with the World Bank, and the result was that last year we had a growth of 4.6 percent of our economy. And this is why, we had the consultative group with the World Bank. All the donor countries have pledged to support the Senegal program for 3 years, with an annual amount of about $600 million for the coming years. So IDA–VII was used wisely, and we can give figures by sectors or by region and stress about the rate of return, which was about 17 percent for the money used in IDA–VII And as you know, IDA–VII lacked some funds. The level was $9 billion but there was a supplemental called the Special Facility for Africa for about $1.7 billion, and this money has been used and we are waiting now for all what need to be done for the implementation of IDA–VIII.

In conclusion, I can say that IDA is where lies the hope of many people in Africa. As you know, all the countries that are under $400 per capita are eligible for IDA. So the United States has done a lot. The U.S. generosity has helped Africa to get again on its feet after the famine situation. But now we are talking about the long run, the long term. And the saying is that if you give a fish to a hungry man, you can feed him for a day or more. But if you teach him to fish, he can sustain and find his self-sufficiency. It is the same in agriculture and all of these fields covered by IDA. That is why we can say that by helping us to achieve this, this could give Africa the important part to play.

Today, our world has attained the target of 5 billion inhabitants; 880 million will live in Africa in the year 2000. It is around the corner. What is the expectation for these people? They need to do better to develop—to recover, of course, and develop and sustain. Some results have been attained since the last famine. Policy reforms, better management of credits and assistance have produced surpluses in food in 11 countries, even countries where 2 years ago they had a lot of problems facing the food situation, like Sudan and some others—Mozambique, and so on. But many of these countries now are doing better. Of course, with the help of all the donor countries, the United States, IDA and other donors, we can face it, and we hope that all our friends all over the world can help Africa, which is not a threat in any way to anybody, politically, military, or even on the trade issue.

This is what I wanted to say, and thank you again for giving me an occasion, Mr. Chairman, to speak on behalf of the African Ambassadors in Washington. I will be glad to reply to some of your questions. Thank you very much.

[The prepared statement of Ambassador Kane appears at the conclusion of the hearing, see p. 41.]

Chairman **Leland**. Thank you very much, Mr. Ambassador. We appreciate you coming forward to speak on behalf of the other African nations at this hearing.

As a representative of an African country that is working very closely with the World Bank on policy reforms and on various development programs, could you tell us how the Bank is perceived in your country by both the leadership and by the people?

Ambassador **Kane**. Usually the World Bank, and mainly the IMF, are being criticized all over the world because of what has happened in many fields mainly on what we call the policy reforms. Sometimes people think that the Bank or the IMF come in and say you have to do this. That is not true. The experience we have in Senegal, we have to discuss with the Bank, to say these are our priorities, how we can do it. They give us advice. Sometimes we have to change, and even sometimes we have accepted some of their suggestions that failed. So it means that now we are convinced that this discussing with them setting priorities is the best thing to do.

Of course, for all this you need to have the human resources. People who are educated, who can discuss on every field—construction, building dams, roads; health, and all of these sectors—who can handle the problems where the experts come in with the World Bank.

I don't say that everything they are saying is good or everything they are doing is good. But sometimes it is possible to discuss and to find a consensus. So with the experience of Senegal, we have in the past found ourselves sometimes with difficulties with the Bank, but finally we agreed and came to a situation where we achieved the purpose we had set forth.

Chairman **Leland**. What do you think the impact would be on Africa if the U.S. Government were not to contribute the full amount that it has pledged for the IDA-VIII replenishment?

Ambassador **Kane**. Well, there was something very important that Congressman Bereuter had said, saying that $1 pledged by the United States will bring the others to pledge $3.31. And there is what they call product assistance, saying that the United States give a certain percentage some other countries, donor countries, will give the same kind of percentage. Of course, perhaps it is difficult to say right now what will be the impact but we think that this can delay the implementation of IDA, because it needs to cover the period from the 1st of July 1, 1988 to the end of 1989. If there is a delay, it will be disastrous.

But perhaps to avoid the delay there is a provision which was accepted during the negotiations, saying that if a country accepts to be a member and part of IDA-VIII it can, such country can give a contribution of 30 percent. This means that the product assistance will not work. Perhaps the other countries will come in and pledge.

And I will stress that, as you know, since the amount reached the first time was not enough some other countries have decided to make a supplemental contribution. And a country like Japan had promised to give $450 million. Canada, the Netherlands, the United Kingdom—this is why the target of $12.4 billion was reached. This is a fair amount and we think that this, if this can be contributed and starting right now, it will be very helpful. Because there are already some projects ready to be funded but they cannot be done. You cannot build a bridge and at the end of the bridge wait for another 3 years to have a road to link. In some areas we have a list of projects which are already funded partly by IDA-VII or the African Specialty Fund and which needs to continue with IDA-VIII.

Chairman **Leland**. Let me ask you to give your opinion on the impact of Zambia's decision to back away from the policy reforms advocated by the IMF and the World Bank.

Ambassador **Kane**. Well, it is a political decision. You are all elected people, you know that you cannot do something which would harm people who elect you. Sometimes this is how it happens in some countries—of course, where they have elections. If they have a different government, military government, it is not a liability, but in Zambia they have a form, what had been asked by IDA, by the World Bank. But unfortunately, they were still having difficulties.

If a country is becoming a—developing country is becoming a net exporter of capital instead of receiving, it means that it cannot at the same time pay its debts and develop. For instance, Zambia relies mainly on the copper. The price of copper for a long period is going down, so it means that the external resources coming to Zambia could not help this country at the same time to pay debts and to perform the criteria of IDA or the IMF and develop. And even recently, another country had suspended paying its debt for the same reason, because everything is linked. You have to receive from what you sell, either ground nuts, copper, coffee, cocoa, or other primary products, and from that you import, you pay your debts, and you develop.

And, of course, the debt situation in Africa sometimes is overshadowed by what is happening in Latin America, but it is totally different. Mainly, Africa owes to international institutions or governments. It is easier in a way to find a solution between governments, because there is scheduling or sometimes a forgiving of debts. Because some countries have decided to forgive their credits, like Canada, the Netherlands, the Nordic countries. In a way, this debt needs to be alleviated to help African countries to develop.

Chairman **Leland**. Do you think the Zambian example could ramify to encourage other countries to do the same?

Ambassador **Kane**. No, I don't think so because the situations are different. The case of Senegal is different from the case of Zaire and so on, and sometimes people talk about having a coordinated position on a situation of that, but it is difficult. It is difficult what a country can afford. What a country can do is totally different from another one, and we think that this cannot be a domino.

If, I hope, the World Bank and the IMF try to understand the social impact of some reforms this cannot be a sort of domino in Africa. In my opinion, the World Bank and the IMF, they need to put more emphasis in the future about the social impacts. Because if they say you have to liquidate some public enterprises, you have to reduce subsidies, it means all these decisions have an impact on population—people who are laid off their jobs, people who don't have enough to buy the foods they used to buy. This needs to be taken into account.

And, fortunately, now the World Bank is trying, and has tried even in our country, to help us to find a way to find a solution for people who have been working with some public companies which were liquidated. And if this continues, we have it in the future, with IDA–8 and some other resources we hope to get from other countries, this will not be a sort of domino, as I have said.

Chairman **Leland**. Very good.

Mr. Bereuter.

Mr. **Bereuter**. Thank you, Mr. Chairman.

I would just ask the Ambassador, after thanking him for his testimony here today, if you would for purposes of illustration focus on your own nation and tell us what would be different about it if the World Bank and IDA didn't exist.

Ambassador **Kane**. Well, maybe Africa would not have today 50 countries. There would be some countries who would not even be able to send ambassadors here in Washington or to the U.N. because all they have would be devoted to feed their population. And even we can say that many governments would be toppled because of social unrest in the country which bring instability and even sometimes revolution. Because the best way to have a country to go to a democratic institution, like the case in Senegal, is to have tranquility and stability. Because you cannot have, in my opinion, a democratic institution when you have unrest every day.

Take the case of Haiti now. I am giving you that example because after the departure of Duvalier, people thought that this would be the end of unrest and stability will come. But unfortunately, now today it is even difficult for someone to take his car and go to his work. Because the unrest in the street and everything bring instability and uncertainty for the future.

So I am definite by saying that, if we did not have IDA and the World Bank today, Africa would not be what it is and our people would not have hope to improve their situation.

Mr. **Bereuter**. Thank you, Mr. Chairman.

Chairman **Leland**. Mr. Mfume.

Mr. **Mfume**. Thank you, Mr. Chairman.

Mr. Ambassador, I have in front of me a study that was done on the very poorest people in Third World countries. Those people whose health is at risk on a day-to-day basis simply because they don't receive sufficient food. The paper is by Michael Lipton and it summarizes the results of four previous studies on the world's poorest people. I would like to offer you a quote from that and to sort of get your reaction. This is taken from page 35 of that study, and it says:

> World Bank project evaluation show massive project penetration to the poor but very little to the ultra-poor. The priority, attainability and, so far, inadequacy of projects and policies for the ultra-poor has to be made clear.

And Mr. Lipton goes on to say that "The World Bank should consider a major initiative to eliminate poverty-induced nutritional risks."

I would like, if I could, just to get your evaluation of the World Bank's efforts to reach the very poorest, the ultra-poor, and to get some idea from you as to whether or not you think they are doing enough or not doing all that they could be.

Ambassador **Kane**. Well, I am sure that if they had enough money they could do better in the field of education, health and in other sectors. The ultra-poor in Africa are the people who don't have running water. Sometimes they need to go as far as 7 kilometers, 6 miles or more, even to go and get water and come back. Every day they have to do it. It takes time. And at the same time they have to perform other work in agriculture, maintaining the house. So water is primary for many African people to get.

Health—sometimes you have a physician for 8,000 people. And even when you need to have to go and see this, you have to go for miles and miles; spend the day, and sometimes the night. We need to have more beds and medicine for these people.

And to reach the ultra-poor, roads are needed.

So it means that—all this is being done, but if you take into account the needs it means that, perhaps, 3 percent, 4 percent of the needs are met by all these credits. But some changes have been made in areas either where the World Bank or the AID or some private voluntary organization where by putting, digging a well to have water in a village have changed totally the situation of the villagers. If they have water, they can grow vegetables so they can meet their self-sufficiency in food. They can raise cattle, have poultry, and so on.

It means, sometimes by doing an investment, very small investment, sometimes $20,000, or in Senegal we have Africare, World Vision, or the African Development Foundation giving the small credit to a village cooperative that has changed wholly the situation of this village. And people who used to go and try to find work and sometimes to earn in some suburbs, in the big towns, have stayed in their village because they have found the way to do it.

By talking about sub-Saharan Africa, you know that in this area from Senegal to Djibouti and Somalia, under the desert, life is really precarious. And it means that, if it rains it is during the fall, sometimes 3 months, so they have to grow everything they can during this period. And the whole rest of the year, if they don't have some activities, it means that this is our populations sometime who have to immigrate in some other countries or to go to big towns where there are all the hazards they can face.

So this is what I think it really means. That reaching the very poor, this can be done by funds from IDA, mainly funds for the private voluntary organizations. For this reason, I support strongly what is in the new Africa fund, giving part of the money to private voluntary organizations who in some areas can go and reach the very poor in the very remote villages in some places in Africa.

Mr. **Mfume**. Well, I wanted to get your opinion because I had asked the World Bank to respond to that also, and what they wrote me back saying was that in fact they would like to do more essentially but they can't; that Congress had greatly reduced their effectiveness by reducing AID; and, essentially, that the bank was not designed well enough to handle the poorest of poor. They suggested that U.N. agencies or other appropriate agencies handle the task.

And I am not here to say it is passing the buck, but I want to get your opinion on that. And I appreciated their opinion. I still don't know how we go about addressing that and whether or not what we are talking about, what we are today with the refunding for this eighth period, if that is going to be enough; and if it is not, does in fact the problem get worse? I think it does.

You talked about water needs. We both know that Guinea worm disease is rampant. It is devastating. It is something that is being addressed in some forum by some agencies, but I don't think we can throw enough at it, really. I think that all that we have in terms of resources still may not be adequate enough.

Ambassador **Kane**. Well, let me give you another example. Perhaps the World Bank, the one who wrote you this reply had forgotten that the World Bank had initiated a project about oncocerchosis disease. This means that it is a blindness of rivers in the area covering a part of Ghana, the mouth of Ghana, Upper Volta, now Burkina Faso. And the project is covering today 13 countries. It meant that some areas were very fertile, but because of this blindness, river disease, people had to flee, to go from their villages. But now they have killed—they are trying to kill this fly, and people are coming back. And these were really very poor people. In some villages when you go there you find perhaps 2 or 3 people out of 20 who can see. The old people, all of them are blind because that disease was in the rivers, in the Volta River. And the World Bank working with the World Health Organization has succeeded.

And there is a tape people can show that this is really one place I am sure where the World Bank working with the U.N. agency had succeeded doing something very concrete by killing this fly and letting people come back in their village and continue working and having their food again.

Of course, by giving money to UNICEF or to private voluntary organizations, something can be done. But the World Bank has done something. If they say that, perhaps they mean that they need to concentrate the moneys they have in some ongoing projects and they cannot have enough money to divert for new projects.

Mr. **Mfume**. Mr. Ambassador, let me ask if you would for just a moment in your own words react to the fact that IDA has shifted its focus in recent years toward policy reform, and in doing so has provided less funding for project loans, and whether or not you think that it is beneficial or detrimental to Africa's poor people and its ultra-poor?

Ambassador **Kane**. It is a difficult question because it is a question of priority. Priority for the Bank and the donor countries because the United States has stressed that these countries need to have policy reform, to change the way they used to plan their economy. The United States has succeeded in the World Bank Council to push for this policy change, and, fortunately, some other countries, as I have said, helped themselves in the state of the change.

But if you put policy reform as a priority you will harm some people because these are nonproject credits. By saying policy reform, it means this money is given, you know, to change the custom or to change some policies but these are not projects going directly to the villagers for water, for health, for education, and so on. But giving more for policy reform means that you have to give less for the other projects, and a balance really is needed. These policy reforms are useful when they support development projects. But just policy reforms for the sake of policy reforms, and just giving credits saying, well, we have done it, give us money, we don't think that this is useful.

Mr. **Mfume**. You think it ought to be tied to specific projects that benefit villagers?

Ambassador **Kane**. Exactly. Exactly. And it is what has been done in Senegal and we can say that in the case of Senegal, in the case of Ghana and some other countries for the past 3 years, really, it has been noticed that there is some change. And I don't know, some of you have traveled to Ghana. Between 1984 and now a lot of changes have been made and it is mainly because of policy reform, mainly because some industry which existed and it had some problems of spare parts, and so on, have been put again into productivity because of the African Facility Fund and now things are really better.

Mr. **Mfume**. Thank you, Mr. Chairman.

Chairman **Leland**. Mr. Gilman.

Mr. **Gilman**. Thank you, Mr. Chairman.

I would like to pursue further, Mr. Ambassador, and we certainly welcome you here before our committee, and I want to commend the chairman for conducting this important review of the World Bank's policies.

Many of us have been concerned about the lack of the funding in these major projects that gets down to the poorest of the poor and what we can do to change some of the approaches being made by IDA and the World Bank and trying to make certain that more than the 10 to 15 percent of the people who are out there without any funding at all get some of this assistance. And I would welcome any recommendations that you might have of how we can improve the World Bank's approach, IDA's approach to some of these problems.

We are beginning to see the World Bank turn around a bit on the environmental aspect, and we hope that that is going to be a sound approach in the future of taking a look at desertification and deforestation and make certain that in any of the projects that we propose there is an environmental consideration. We have also proposed some microenterprise legislation to make certain that the very small enterprises, that $50 or $60 loans are out there and are available for those people who want to try to get on their feet with very small enterprises.

Are there any thoughts that you have about how better we can approach that segment of our population?

Ambassador KANE. Well, I think the US has many resources and Congress has heavy leverage on everything. Besides the money which is being asked for the implementation of IDA-VIII you have institutions, foundations, universities, who have done a very good job and who are ready to perform. Even with the resources they have, they can help many African countries to alleviate their economic station.

Well, let's take an example. Because we have the satellites going around the world six times every day. And, by the way, I can say that Senegal has a tracking station for NASA. That means if ever something happens, a satellite which takes off, which lifts off from Florida, in 33 minutes it can land in Dakar for to be repaired—Dakar or Spain. So it means—I am coming back to my IDA thing—that with the satellites they can help see where the fishing fleets of unfriendly countries are coming to fish, depleting sometimes our resources from our people. This is a case for many countries coming to fish in the limit of the 200 miles economic zone of West Africa. Many countries coming, well, this can be help for us.

It can be a help for us to know where we can find groundwater, our natural resources. This is an area I am sure where NASA or some other organization or foundation can help Africa. But mainly, if the grants are given to IDA, it means that this money will be repaid and be recycled again. Because this is the whole idea of IDA having a period, which was 50 years before, now it is being reduced to 40 years with a 10-year grace period. If an investment is made and, as I say, if the rate of return is around 17 percent, it means that in the 10 years this investment can come back again and IDA can use the money to refinance or de-fund an investment either in Africa or some other places.

So it means, as I stated, really, that the self-sufficiency in food production in many areas can be attained with IDA. IDA is really the best hope for the poor countries which are in Africa.

Mr. GILMAN. But all of these still focus on the major projects and we are not talking about what we can do to start trickling down to some of the poorest of the poor in these countries. Do you have any recommendations of how we can improve earmarking some of this funding for the structural projects down to some of the more smaller projects, some of the more basic needs that are not being met by the larger loans that we are giving out and the grants that we are giving out?

Ambassador KANE. Well, I think this can be done, but better in the Africa Fund with U.S. A.I.D. because in this area you can put earmarks saying, well, 30 or 20 percent has to be devoted to health or to education, to improve living of people in the areas or say that part of that money has to be used not in big countries or capitals, but in the remote places, and link it with the participation of private voluntary organizations. There are many of them who are performing a wonderful job in Africa, and I can give the example of Senegal where Africare alone had 42 projects being conducted in various fields—reforestation, water resources, fishery, agriculture, helping women to do many of the development projects; or World Vision, or CARE, or some others, African donors. You can do it, in my opinion, in this because it is on a bilateral level.

Because with IDA, it is a multilateral institution you cannot come and say I give certain amount of money but you have to use it in that way. Of course, the Council, the Board of the World Bank have decided to put emphasis on agriculture, on infrastructure, and so on, but this is what we can do because our projects have to be negotiated with the countries because each country has its own project. Senegal has its development plan. Ghana or Malawi or some other countries maybe don't have that. They have a program for 1 or 2 years. Sometimes this is where the negotiation has to be conducted. But in the bilateral level, earmarking the money is possible and sometimes it can be useful. Because in IDA, people have to come and bid if there is a project, and it is open to all IDA members to apply for the bids for projects being funded by IDA or the World Bank.

I don't know if my reply is sufficient, Congressman.

Mr. GILMAN. Well, it isn't sufficiently satisfactory. Isn't a good portion of IDA lending policy based on trying to change some of the governmental policies and trying to bring about reforms, for example, land reforms and some of the economic policies; and doesn't some of these policy-making reforms impact upon the poor rather than helping the poorest of the poor in these nations?

Ambassador KANE. Well, I don't have an exact percentage of what has been devoted by the IDA-VII or the African Specialty Fund, but I am sure that there are some projects which were devoted to—for that use.

Mr. GILMAN. Well, in Senegal, for example, are you finding that the funding that has been given by IDA has come down to the very poorest of your land and has helped them considerably?

Ambassador KANE. Oh, yes. Oh, yes, in many areas. Let us say we are building, we are harnessing the Senegal River, which is between Mali, Mauritania, and Senegal. Having done both in Senegal and Mali to have water for irrigation, to have electricity, to put us in a way we could use it even for navigation. And in this area we say that the lands have to be used by people who are living there. We don't want people who have money to come from abroad or from towns to come and say I can have a hacienda in this area. We say no: First, the people who are living there; second, the people who live there and who emigrated because they did not have some work to do. Some of them are living in France or some places; and, third, people who live in some other areas and now want to come here in the northern part to work for agriculture, in the agribusiness; and, fourth, perhaps people who have money who want to come. So we put priorities, meaning that the first ones to be served are the poor people in that area; and IDA has participated as well as the United States and some other donor countries to fund the building of these dams in that area and to prepare for the lands to be given to the people in that are.

Mr. GILMAN. How large a project is that dam project?

Ambassador KANE. Oh, it is a very large one.

Mr. GILMAN. How many dollars involved, roughly?

Ambassador KANE. We needed more than 3 years to negotiate and to use the skills of the president of Mali, Mauritania, Senegal——

Mr. GILMAN. Roughly, how many millions of dollars are involved in the project?

Ambassador KANE. Well, perhaps it is half of the funding of IDA-VIII.

Mr. GILMAN. Half of the funding of IDA-VIII.

Ambassador KANE. Almost.

Mr. GILMAN. And how much of the population of Senegal will benefit from that project?

Ambassador KANE. With this project we will attain our self-sufficiency in millet production, rice production, and even we could grow corn.

Mr. GILMAN. And what portion of the population of Senegal will benefit from that?

Ambassador KANE. Nowadays I can say that the whole country will benefit from that. I have been minister of trade in my country and I know that we used to import every year 400,000 tons of rice, mainly from Thailand. Why Thailand? Because they have brokered rice. We wanted to buy from here but it is difficult. The brokered rice is not sold outside the United States. It is reserved mainly for the breweries. You have big lobbies from the brewery industry which could not allow us to have brokered rice.

Coming back now to this, I mean that if we have self-sufficiency in rice, it means that we don't need to import that amount. It is about 3 or 4 billion of CFA, about 1 billion every year we devote——

Mr. GILMAN. But how would you translate that now into direct assistance to poor farmers in the region of the dam situation? What portion of your people are you helping by this dam? I guess what I am trying to get at is, so often in these large projects that have an indirect benefit to the entire nation, so often do not assist the poor farmer in that area. They don't truly get to him to be of help and these projects can go on for decades before they are implemented.

Have you found that this project has been of immediate beneficial help to the poor farmers in that region?

Ambassador KANE. Well, the project is being constructed, it is not finished.

Mr. GILMAN. How long has the project been going on?

Ambassador KANE. 1988. Next year.

Mr. GILMAN. And how long has the project been in the works?

Ambassador KANE. How long?

Mr. GILMAN. How long has the project been in the works? When did it start?

Ambassador KANE. Oh, it started about 10 years ago. I remember when I was in Canada in 1977——

Mr. GILMAN. So at this point, really, there still hasn't been any direct benefit yet to the farmer, has there?

Ambassador KANE. Oh, yes, it has been. Because one of the dams has been built in Diama in Senegal. But the dam in Mali is being built.

Mr. GILMAN. And what portion of your population are directly being benefited? What portion of the farm population are being benefited by it?

Ambassador KANE. Senegal is 6½ million population. About 1 million of them are living in that area in the northern part of Senegal, and they will benefit directly from that.

Mr. GILMAN. And are the 1 million engaged in agriculture in that area?

Ambassador KANE. No, living in that area where we have the river. But 70 percent of the population of Senegal is engaged in agriculture. But as I said, they work in their lands when it rains, from July to October. But when we have the dam it means we will have more than one crop. Sometimes two and two and a half. And this is where lies mainly the Green Revolution, which succeeded in India because they had possibility for irrigation to have more than one crop. If we can have more than one crop in that area it means that our food problem will be solved.

Mr. GILMAN. I recognize the ultimate objectives and they are probably salutary. What I am concerned about is are we devoting some portion of these funds that are available to try to get some immediate assistance to those who need it most, and are we earmarking any of those funds to try to get out as quickly as we can.

To have to wait 10 or 15 years, for some of these people may mean the end of their existence, if they don't have help in that.

Ambassador KANE. But you need to plan it. You plan it, you have everything ready, and then sometimes it is hard to get the money because it has to come from all sources.

Mr. GILMAN. Well, I would hope you might consider the possibility of some earmarking of the major projects to help the poorest of the poor, to try to get some immediate assistance to help them sustain themselves.

I know I have overextended my time. Thank you, Mr. Chairman. Thank you, Mr. Ambassador.

Ambassador KANE. Thank you.

Chairman LELAND. Mr. Espy.

Mr. ESPY. I have no questions, Mr. Chairman.

Chairman LELAND. Mr. Hall.

Mr. HALL. Thank you, Mr. Chairman. I am sorry that I am late. I have a statement that I would like to have put in the record.

Chairman LELAND. Without objection.

[The prepared statement of Mr. Hall appears at the conclusion of the hearing, see p. 38.]

Mr. HALL. Mr. Ambassador, we have talked a little bit about the issue of how one can work with the World Bank to ensure that more of the resources can get down the most basic grassroots level. In the statement that I have, and in discussions that I've had with the World Bank over the past year and a half, one of the things that I have advocated is the establishment of a special facility under their special operations budget where some money could be set aside on a grant basis in each of these countries that the World Bank is working in for use by nongovernmental organizations. The NGO's could them use the funds to carry out programs in very rural areas such as immunization or oral rehydration therapy or efforts to eliminate the Guinea worm disease. And we are talking about a small amount of money, somewhere in the area of $75 to $100 million.

Would that be something that would interest you and do you believe it would help in strengthening the World Bank's efforts to help the poor?

Ambassador **Kane**. Well, I think it has been very interesting. And, as you know, there is a new president of the World Bank who is changing the philosophies of people. Every World Bank president coming to Washington has in his briefcase some idea or suggestion. You remember Mr. McNamara insisted when he was here on the infrastructure sector. Mr. Conable, before him Mr. Clausen had raised the level of funding by IDA to Africa. And we have Mr. Conable now. I think that he will insist on the efficiency of this organization. Because one of the criticisms that we made sometime, and we are waiting to see if there is some change, is that sometimes, as Congressman Gilman had said, you work on a project, you do everything on your side, and you have to wait for 5, sometimes 3 years to see something happen.

It means that some of the parameters you had in your project have changed, and it is difficult sometimes to stay in the same envelope. But your idea, saying that maybe with the new change in the World Bank asking them to put aside a pot of money, this can be done. This can be done and we think and we stress again that IDA is wholly devoted to countries, poor countries under $400 per capita. It means that these are neediest people in IDA countries and in Africa, and we think that this can be done with discussion with the World Bank management or through the Board of the World Bank.

Just one point to say that from the beginning when IDA was created to today many countries have changed situations. They used to be receivers of IDA funds and now they are no more on that level. It means that they have raised the level of their per capita. There are 24—25 of them who have changed from that group. They left the IDA group and now they are in the World Bank. And even we have two of them, Korea and Colombia, who are contributing. They are contributing to IDA-VIII, Colombia for $9 million and Korea for $17 million—and I am sure they can do more. This means that IDA has succeeded in the countries where they have been funding projects in the beginning to alleviate hunger and to raise the level of income for the people.

And in the case of India, Bangladesh—some years ago you heard about the poor people in Bangladesh, Pakistan and India. I had said that $39.7 billion was devoted since the beginning of IDA to India, and now India is self-sufficient in food production and even is selling rice to some African countries. It means that with IDA we can succeed to do a lot of things in Africa, mainly in poor countries in our area.

Mr. **Penny** [presiding]. Further questions? If not, Mr. Ambassador, we thank you for your testimony this morning. You have made a tremendous contribution to this hearing and these issues. Again, we appreciate your being here.

Chairman LELAND. Our next witness is James Conrow. He is the Deputy Assistant Secretary for Developing Nations at the U.S. Department of the Treasury. Mr. Conrow has provided leadership on a number of international development issues for Treasury during his tenure there, and he is recognized as an expert on World Bank and IDA.

We appreciate you joining us today and look forward to your statement. I am certain we will have questions for you at the conclusion. Please feel free to proceed with a summary of your testimony; the entire written document will appear in the record.

STATEMENT OF JAMES W. CONROW, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS, U.S. DEPARTMENT OF THE TREASURY

Mr. CONROW. Thank you very much. I thank you for the opportunity to come before this committee to discuss the IDA-VIII replenishment and its importance for sub-Saharan Africa. The administration strongly believes that the IDA-VIII replenishment is the most effective vehicle for providing assistance to further economic development and growth in the poorest countries and to attack the underlying causes of poverty in these countries.

We are all aware of the severe problems confronting the sub-Saharan African region, a region which ranks at or near the bottom on virtually all the basic indicators of development and well-being. Improving the situation in these countries poses a major challenge to both the countries themselves and the international community at large.

There is a strategy for meeting this challenge, a strategy which has received broad support from all of the interested parties—governments of countries in the region, donor countries, and the international financial and development institutions. It is based on the concept that to restore economic and financial stability and to achieve stronger sustained economic growth, fundamental reforms of policies and systems in the region are necessary with support from the international community.

In the 1970's and early 1980's, the International Monetary Fund provided increasing amounts of balance of payments financing to many African countries under standby arrangements in support of macroeconomic reform programs. The World Bank provided financing in the form of project, sectoral, and structural adjustment lending.

The IMF, consistent with its basic mandate as a monetary institution, provided short-term balance of payments financing on terms that were not well suited to the adjustment capacity of these countries. IMF credits must be repaid in 3 to 7 years and interest is charged at market-related rates. Through successive standby arrangements and extensive use of other IMF credit, many African countries were able to postpone or avoid extreme economic difficulties, but very few African countries emerged from the global economic difficulties between 1973 and 1983 with comfortable balance of payments positions. In fact, quite a few ran up substantial debts to the IMF and several accumulated substantial arrears of repayment of those debts which seriously complicated the design of adjustment programs. Lending from the World Bank Group concentrated on longer term development objectives, and most of its lending was on highly concessional terms.

A growing consensus has emerged in recent years that economic growth in Africa depends primarily on the quality of the economic policies implemented by African countries, and that the Bank and Fund have a central role to play in fostering such policies. What had been missing was a medium term focus and a mechanism for ensuring full collaboration between these two institutions in providing financing and policy advice, as well as for mobilizing additional bilateral financing. In 1985, at the Bank and Fund annual meetings, Secretary Baker put forward an initiative to address these problems. His proposal was discussed and modified over the following months, was endorsed by the executive directors of the Bank and the Fund in the spring of last year, and is now being implemented.

A key element of the proposal is the use of 3-year policy frameworks. Developed by the borrowing country with the Bank and the Fund, policy frameworks identify problem areas and outline policies for addressing those problems. The policy frameworks also contain an assessment of the country's external financing needs and indicative levels of financing from the Bank and Fund. It is expected that the process will also catalyze additional bilateral assistance for the borrowing countries.

Once the policy frameworks are agreed upon, the Bank and the Fund negotiate independent, but related, policy-based lending programs consistent with the overall frameworks. The Fund established a new structural adjustment facility, which is funded by roughly $3.4 billion in reflows from earlier Trust Fund loans, to implement the new scheme. World Bank lending to be associated with this facility will come from IDA; more specifically, from the eighth replenishment that was agreed upon in December 1986. Thus far, the IMF has made loans totaling about $473 million over 3 years to 11 African countries from the SAF. World Bank commitments of concessional resources to these 11 countries totaled $625 million in fiscal year 1987.

The policy framework process has several distinct advantages over the earlier arrangements for assisting reform in sub-Saharan Africa. Its medium-term focus is more appropriate to the economic situations of the borrowing countries. It involves formulation of comprehensive internally consistent reform programs, incorporating the macroeconomic and structural adjustment policy changes formerly handled by the Bank and Fund separately. The terms of the IMF financing under the SAF—10-year repayments, including 5 years grace and at an interest rate of 1/2 percent—are better suited to these countries' financial situations.

The process of economic reform has received broad support and many African countries have recognized their own responsibility in meeting the challenge. Over 20 African countries, representing roughly three-fourths of sub-Saharan Africa's GNP and GNP, are implementing or initiating major economic reform programs. These policies can work. Last year, for the first time this decade, income per capita in the low income sub-Saharan African countries grew. For the entire region, food production grew at almost 3 percent keeping pace with the rate of GNP growth. While climatic factors were partly responsible for these developments, better economic policies were a necessary component.

However, given the severity of the situation in the region better economic policies alone will not be sufficient. These countries will also require concessional assistance in support of their economic reform efforts, if the challenge is to be met and economic adjustment is to take place in the context of growth. The IDA-VIII replenishment is essential in this respect because it is specifically designed to provide support to low income, sub-Saharan African countries undertaking economic reform efforts.

As most of you know, IDA makes long-term, highly concessional credits to the world's poorest countries which are experiencing widespread poverty, have an underdeveloped resource base and limited creditworthiness. IDA has become the single largest source of concessional development assistance to these countries. In 1986, donors agreed upon a very substantial replenishment of IDA's resources, $12.4 billion for the 3-year period beginning in July 1987. During these negotiations, one of the administration's key goals was to reach agreement among donors to give highest priority in the allocation of IDA resources to sub-Saharan African. This was successfully accomplished. Half of the IDA-VIII replenishment, more than $6 billion, is targeted for sub-Saharan Africa.

Another key objective of the administration during the IDA-VIII replenishment negotiations was to reach agreement that an increasing proportion of IDA funds would be used to support the policy reform process. There was general recognition among donors during the negotiations that, while IDA's traditional role of providing resources to support investment is essential, there is a growing requirement for adjustment support lending, especially in Africa.

As a result of these negotiations, adjustment support as a proportion of total lending will increase from 14 percent in IDA-VII to 25-30 percent in IDA-VIII. For many African countries, more than one-half of the IDA-VIII support is likely to take the form of fast disbursing adjustment lending. Economic reforms will take time to produce concrete results, however. The past policy distortions which are addressed by these programs are deep-seated and their removal will have significant political and social costs. The administration believes that IDA-VIII is an extremely important vehicle for providing continued support to assist countries in reorienting their economies and that the replenishment is critical to the success of the economic reform process in sub-Saharan Africa.

I want to stress that, while there is increasing emphasis on policy-based lending in IDA-VIII, we still expect IDA to be a significant lender both to the directly poverty oriented sectors like rural and urban development, education, and health and to other sectors such as agriculture where benefits have gone to the poor. Roughly 25 percent of IDA-VIII will be used for policy-based lending, leaving more than $9 billion for projects. This is in contrast to IDA-VII where $8.2 billion was for projects.

You should also be aware that structural adjustment lending will help alleviate poverty. While the institutional, political difficulties, social costs, and financial requirements to sustain the adjustment process are extensive and present an enormous challenge, the costs of failing to adjust are far more damaging to the poor in the long run. Reform policies should reduce or eliminate economic distortions which in most instances discriminate against the rural poor. In general, adjustment programs will have a positive income redistribution effect to the rural sector by correcting that discrimination. In addition, shifts in public expenditures resulting from adjustment programs—from capital intensive investments in large-scale, urban-based projects to low cost programs reaching a large number of people—strengthen the poverty focus of government programs.

World Bank management is keenly aware of the impact of adjustment on the world's poorest and mindful of the need to assure that such structural adjustment lending will bring benefits to the poor. At the meeting of the Development Committee in April of this year, World Bank President Conable reiterated that the alleviation of world poverty through an accelerated process of economic development remains a vital task of the Bank.

In order to ensure the Bank's increased attention to poverty alleviation in the design of assistance strategies and lending operations, management appointed a task force to rethink the Bank's approach toward poverty. The recommendations for a detailed strengthening of the Bank's poverty programs will be discussed with the board of directors in fiscal year 1988.

President Conable has taken personal interest in the work of the task force. Clearly the Bank has a commitment to the strengthening of its poverty programs. The administration looks forward to reviewing the recommendations of this task force.

In negotiating the IDA-VIII replenishment, the Administration also supported the continued use of IDA resources to support market-oriented policies in the poorest countries, including the development of the private sector and privatization. In low-income countries most of the private sector activity is in agriculture. IDA lending for agriculture and rural development accounts for a 40-percent share of total lending.

Increased use of structural and sector adjustment loans and loans for industrial projects have emphasized the efficiency of both public and private enterprise operations. In an increasing number of African countries, divestiture of public enterprises and liquidations, where deemed necessary, have been explicit conditions for IDA credits. IDA has supported or is in the process of preparing approximately 45 projects with privatization as a component. IDA has also encouraged greater private sector participation through leasing, management contracts, and joint ventures. More indirectly, by improving efficiency in the public sector and redressing its size, the borrowing requirements on that sector are reduced, thereby creating more room for private sector borrowing. In addition, IDA works to encourage the removal of trade barriers, a liberalization in the climate for foreign investment, and generally to promoting a responsive regulatory and economic environment in order to provide a more conducive atmosphere for private sector activity.

Mr. Chairman, in my prepared statement I have addressed a number of issues that were asked of me in my appearance before this committee dealing with examples of lending that affect directly the poorest people, and I will not speak to that in my summing.

The administration has requested authorization and appropriation for an annual contribution of $958.3 million for a total of $2.875 billion over 3 years for the United States share in the IDA-VIII replenishment. Our share represents 23 percent of the total replenishment, down from 25 percent in IDA-VII and from 42 percent of the initial subscription in 1960. Our request results from a carefully considered judgment that this funding level best reflects three basic funding criteria: first, a funding level that is adequate to maintain IDA as an effective instrument for the promotion of economic reform and development; second, a funding level that is sensitive to our overall budgetary situation; and, third, a funding level that is realistic in light of previous difficulties in obtaining IDA appropriations.

U.S. participation in the eighth replenishment is of vital importance for IDA recipients and the agreement cannot go into effect without our contribution. In addition, other donors are also entitled to pro rata reduction should the United States fail to make its full contribution. Thus, the administration considers it a matter of urgency that legislation to permit the United States participation be adopted as promptly as possible. I, therefore, strongly recommend that high priority be given to the proposed legislation to fully authorize and appropriate the U.S. contribution to IDA-VIII.

Thank you, Mr. Chairman. I would be happy to answer any questions you or the committee may have.

Chairman **Leland**. Thank you, Mr. Conrow.

[The prepared statement of Mr. Conrow appears at the conclusion of the hearing, see p. 59.]

Mr. **Penny**. I am curious to know, if you might discuss a little more about the contribution level from the United States. Given the fact that it has fallen off and in the coming years we are expecting IDA-VIII to do a more aggressive job, and that doesn't seem to be matched by a higher commitment from the United States for funding of IDA. Could you elaborate a little on how you arrived at the dollar figures and the percentage amounts?

Mr. **Conrow**. Well, Mr. Chairman, I want to stress at this point that the reduction of the U.S. share does not in any way reflect a lessening of U.S. interest in the institution. On the contrary, what it reflects is the growing capacity of other countries to carry a larger burden of financing for this activity. As I indicated in my opening statement, when IDA was first formed, the U.S. share was at some 40 percent. We havee been very successful in the years since then to see other countries not only become donors but take larger and larger shares.

One of the real achievements of this IDA-VIII exercise was the fact that countries such as Japan, Canada, Italy, and, as the Ambassador from Senegal indicated, even some of the newly industrialized countries such as Korea and Colombia have become donors to IDA.

Mr. **Penny**. Can you talk a little about the importance of our meeting that financial obligation? What would be the effects on other donors or IDA generally if the United States doesn't match its pledge?

Mr. **Conrow**. I would like to come at that from two different directions. One is picking up on what the Ambassador has said. I think we are at a period of time where there is an enormous opportunity for helping to deal with Africa's problems. You have a large number of African governments who acknowledged some of the policy mistakes that they have made in the past; they have gone before the U.N. and very clearly laid before the world community that acknowledgement; and have said we are willing to explore ways of improving our economic performance, we would like your help. I think that is a call to all of us that we should be responding to.

We have, as I have indicated in my statement, an important initiative to try to bring two major institutions, the IMF and the World Bank, together in a medium-term framework to deal with these problems, to leverage their resources. We are embarked on an effort to bring the other bilateral donor programs, not only our own AID program, but the other European aid programs, into a more coordinated fashion into this process as well.

The United States has been in the leadership of putting this whole effort together. Quite clearly our inability to come forward with either the replenishment in its total or to experience major reductions in the annual funding levels raises very serious questions as to the real commitment of the United States to this effort, and I think it would be very unfortunate. Because we do have a very real opportunity out there.

More practically, the reduction in our contribution, if that were to take place, would translate into other countries cutting back what they would contribute. The Europeans, in particular, are not prepared to take a disproportionate share of the annual commitments to the institution. They know full well the political problems in the United States in terms of our historical support for IDA. And they have learned from past experience that the United States has not been able on an annual basis to fulfill these commitments, and they are therefore positioning themselves to cut back if the United States cuts back.

So this business of burden-sharing and the leveraging that comes about from the U.S. contribution has the reverse effect if we cut back. If we cut back, others cut back as well, and that affects the annual lending program of IDA and that affects the ability of IDA to really respond to the needs of Africa. Again, I want to underscore the basic point that I'm making, today we have African governments who want to make significant adjustment in their policies and work with the World Bank and the IMF in doing so.

Mr. **Penny**. It is clear that both—well, that you and Secretary Baker have a personal commitment to honoring our pledge. What are some of the specific steps that you have taken to secure the authorization and the appropriation level that we are committed to? Is, for example, the White House lobbying team kicked into gear on this one?

Mr. **Conrow**. I can assure you we have the whole network moving on it. If I might, let me walk you through where we are in the legislative process. The Secretary himself, personally, has testified some seven times by now in support of IDA before the various committees of jurisdiction. He has worked the phones, if you will, on a number of occasions with your colleagues to try to encourage them to be supportive of this legislation.

In the Senate the authorization for IDA-VIII has been contained in the foreign aid bill that was reported out of the Senate Foreign Relations Committee. I would note, however, unfortunately, that while they have provided the entire authorization for our participation in IDA, they have capped our fiscal 1988 contribution to a level of $600 million as compared to our request of $958.3 million. We hope that if this legislation gets into a conference that that restriction could be removed.

On the House side, as a number of members have stated who are on the Banking Committee, the Banking Subcommittee has approved the IDA authorization in its entire amount and it is now pending before the full committee. We don't know at this point when the full committee would consider it, but, obviously, we will do everything we can, to secure support both on the Democratic side as well as on the Republican side. I also can assure you that when this legislation gets to the floor, we will be making every effort with the leadership, again on both sides of the aisle, to secure its passage.

Mr. PENNY. You certainly are aware of the limitations in the budget resolution for foreign aid funding.

Mr. CONROW. I certainly am.

Mr. PENNY. Recognizing the reality that foreign aid funding is not going to be as high as the Administration requested, it means that we have got to juggle some priorities in order to make sure that this doesn't get clipped in the process.

Can you speak specifically to what the trade-off ought to be to make sure that we don't shortchange this part of that foreign aid budget?

Mr. CONROW. This is an interesting point because it is a discussion that is going on right now downtown over the last, I would say, 48 hours; in part, in anticipation of the mark-up that was supposed to occur this afternoon in the House Appropriations Subcommittee on Foreign Operations. To comment on what Congressman Bereuter said, it has now been postponed until next week at the earliest. But the numbers are rather stark. The Foreign Operations Subcommittee has before it the administration request of $15.9 billion for foreign aid. The Budget Committee and then what they call the 302(b) allocation, which is what the full committee allocates to the subcommittee, the House Appropriations Subcommittee gave $13.2 billion in terms of budget authority. So that's a $2.7 billion cut we have to take right off the top in terms of the administration request. Then not surprisingly members of the Foreign Operations Subcommittee feel that there are priorities besides some of those things that the administration is requesting, and so there are addons from that perspective as well.

All that being said, we are going to try to put within this shrinking pie as much as we can in terms of our priority programs. I can say to you at this point that within the MDB area our request in total for fiscal 1988 is $1.8 billion for the development banks. If we were to take what we would call, our fair share cut, that would be reflected for moving from $15.9 to $13.2 overall, the number would be closer to $1.5 billion. But again, with the rejuggling of priorities, that number may very well fall somewhat further.

Within all of that, I can assure you it is the view of the Department of the Treasury, and certainly that of Secretary Baker, that the single highest priority within the MDB budget request that we have is IDA, and we will work with the committees to try to maximize that component of the request, but at the same time trying to do severe damage to the other institutions such as the African Development Bank and Fund that we would like to be supportive of.

Mr. PENNY. Yes. Well, I think they need some support in that direction from the administration. Because clearly within the administration there are those that are pressuring in other directions, and whatever influence you can have in this area would be tremendously helpful. And, obviously, time is of the essence here; we have just a few days to influence that decision.

Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman. We welcome Mr. Conrow before the committee.

We have been trying to emphasize in some of the earlier questions the political support for foreign aid depends in large part, I guess, on the people's belief out there and maybe I should say hope that the aid we are giving is helping some of those who are most in need. As one of my colleagues pointed out earlier, Michael Lipton, in a study done for the World Bank entitled, The Poor and the Poorest: Some Interim Findings, in the March 1985 report, says:

> Much more serious is a widespread finding both in the Bank and elsewhere that the poorest 10 to 20 percent of the people have not benefited and may even have suffered from policies, programs, and projects in developing countries that are efficient as sources of growth and/are cost effective in benefiting, say, the second poorest quintile of people.

I would welcome your comments on that, and also on the recommendation that he quotes in his report that the World Bank should consider a major initiative to improve the well-being mainly through higher productivity of the most truly needy.

Would you care to comment on that report?

Mr. CONROW. I would be happy to. The first point that I would stress, which is obvious to all of us, is that when you are talking about countries whose per capita income is $410 or less that the vast majority of the people in these countries are very, very poor. We can talk about levels of poverty, but in many, many of these countries, the vast bulk of the population is extremely poor and it is hard to draw those fine lines.

Clearly, I think it would be foolish of anyone to suggest that with all of that need that is out there in Africa, that we through all of our aid programs, whether they be World Bank programs or bilateral programs, we are addressing all of those needs. We cannot; the resources just simply are not there to respond to all of these needs. What we have to try to do is design a strategy that works at hitting at both targets: the low income, very, very low income within the poorest countries, but also looking toward the broader issue which is the economic situation of the country itself so that it can help its own people itself.

And so it is a fine line that you have to draw between policy-based lending, project lending, your project lending for infrastructure, your project lending for low-income beneficiaries, the education component versus agriculture. These are issues that we spend enormous amounts of time on trying to figure out what the right mix is. The answer is you try to attack all of those issues, but you do it in a way that you don't feel that—you are not spreading it so thin that you are getting nowhere with it.

Mr. **Gilman**. Forgive me for interrupting. I guess that is my concern. Do we have the mix out there that does take care of that poorest segment of the population? As we get into policy-based lending and we get into structural lending, are we neglecting that very poor segment?

Mr. **Conrow**. I don't believe we are neglecting it. I think as the Ambassador was trying to indicate, you have to put it in the context of a country program. The leadership in these countries must first make this their priority for their own citizens. You have to lay down the infrastructure, like getting the roads built. You have to get the electricity up. There are certain things that just simply have to be done. You have to get schools built. You have to get education, potable water systems. These are essential components.

Added to that, you need appropriate economic policies such as pricing on agriculture so it is not a disincentive to a farmer to produce, but rather there is an incentive system for them to produce. A realistic exchange rate that enables the country to compete in a global environment. It is a very interdependent world that we live in.

So there is a lot of issues here, and my own view is that what we are attempting to do in terms of this strategy for Africa between the IMF, the World Bank, the bilateral donors, and, obviously, with the borrowing countries is the right mix as I see it at this time. Now it may well be that a year from now, 2 years from now, we would come back and say, well, we want to tailor it a little bit more one way or another.

Mr. **Gilman**. Well, let me say this. I have certainly been a supporter of the Bank over the years, but I think it would behoove the Bank and behoove us all to see if what the Bank is trying to do could be improved.

One major area of concern is, and that is something that my colleague, Mr. Bereuter, has emphasized in his committee, is the Bank doing enough to understand what the real needs of poor people are and to provide funding for those needs. One way to do that, and Mr. Bereuter has drafted some legislation in the proposal, is through Third World grassroots organizations. I have been interested to see that several writers that have examined the World Bank have suggested that the Bank cooperate more fully with Third World grassroots organizations. For example, Robert Ayers in Banking on the Poor: The World Bank and World Poverty states: "An intensified effort needs to be made to explore the feasibility of utilizing nongovernmental intermediaries as recipients of the transfer of Bank resources."

Do you think that the increased use of nongovernmental organizations to reach the poor in Third World countries would be a useful policy, and would our Nation be willing to support such a policy?

Mr. Bereuter has drafted into the legislation a provision, section 1302, of World Bank collaboration with nongovernmental organizations and sets forth the basis for such a program where the Secretary of the Treasury would instruct the U.S. Executive Director of the Bank to initiate discussions with other directors of such institutions that have proposed the establishment of a grassroots collaboration program to develop and improve mechanisms for involving directly or indirectly nongovernmental organizations in the design, implementation, and monitoring. It goes on in that vein.

What are your thoughts about that sort of program? Would you endorse that kind of a program?

Mr. CONROW. We are very positive on it. As I indicated in my statement, President Conable has called for a task force to look at this basic question of the poverty component of its lending program and how best to address it, and to look at the role of the NGO's in this process, and Congressman Bereuter's legislation moves very much in that direction. It would be my view, and I certainly believe it would be the administration's intent, to take that legislation and interject it into that task force work so that they can look at where our Congress feels we ought to be going, and have the task force look at that as they go about their work. That is something I feel will be very appropriate.

Let me just say, if I might, Congressman Gilman, that having been working now with the World Bank for some 10 to 12 years in different capacities that I believe there is an issue here that is very valid. In the past, the World Bank generally worked directly with the government officials, the ministries of planning, finance and budget, agriculture ministers, and what not, in the capital cities of these countries. Little effort was made to reach NGO's that were operating in these countries. Very little was done to try to deal with local organizations that were there. Some of these infrastructure projects that you talked about would be targeted on a particular rural area in a country, but the locals knew nothing about them. They didn't know there was a project until the bulldozers started coming down the road. There was really a lack of communication both between the government and its people and the World Bank and the people.

A lot of this goes back to the period where there was a drive in the World Bank to just forever move more money out the door with less concern, and I am being very candid about this—but in my own opinion, less concern about the real quality of what was happening in these countries. I think that is where you find the environmental mistakes that have been made and you can find projects that were designed that really aren't working. These projects had not worked out because there was lack of real local interest and local commitment to these efforts because they had nothing to do with their implementation.

So what has happened, as we have learned from this experience process, is that this institution needs to reach out more clearly to the NGO's and to the local communities and get them involved in the decisionmaking process. I think the World Bank is committed to doing that and is moving in that direction. I think as the Ambassador from Senegal has indicated, that the governments themselves recognize this need and the importance of it, and they, themselves, are forcing this process forward.

I would just say something that I think is an interesting aside. It was the Senegalese government which was the one that said at one point to the donor community, you know, each of you come in here individually with your programs and issues that you want us to address, but we have no sense where we are going collectively. It was Senegal who was the first country that said we want to convene a meeting and bring all the donors together around the table and talk about what our priorities are, how we go about doing it, and make sure that all of this is interwoven. That was really the initial move in Africa to do this, and I give Senegal a great deal of credit because it started this process.

Mr. GILMAN. I would hope we would do that in all of the nations, as a matter of fact.

Mr. CONROW. Well, we are going to try.

Mr. GILMAN. I have supported the structural adjustment loans and I recognize the underlying reasons to provide some needed foreign exchange, and I think it was wise for the World Bank to make some of that foreign exchange available in a timely fashion through structural adjustment. I think that probably there were several main causes for the foreign exchange problems in Third World countries: the oil price shock; the large amount of foreign borrowing, and not all of which was wise borrowing or lending, by any means; and the fall in export prices for many commodities, much of which was caused by the recession in developed nations.

My concern with these loans is that they have detracted and will continue to detract from assistance to poor people in these countries. Some of the important reasons why structural adjustment loans were necessary have also changed. For example, oil prices are coming up to a more reasonable level, interest rates on foreign loans are down substantially, and growth has resumed in developed country economies.

My question is when can we expect a decline in structural adjustment lending by the World Bank, and can we hope that is going to lead to an increase in lending to the poorest groups?

Mr. CONROW. I don't know that I could answer that question in terms of when we would expect a decline in structural adjustment lending because very much depends on circumstances as events unfold in the years ahead. I think though that I would differ with you slightly in your emphasis that somehow the structural adjustment effort is at odds with helping low-income people in these poorest countries.

Mr. GILMAN. Well, it certainly siphons off a goodly portion of the limited funds that are available.

Mr. CONROW. No. The lending is designed to attack problems which are having severe effects on low-income people, but not only low income but everybody in these countries. It is designed to ease the adjustment process as the country tries to get itself in a position to be competitive in a very competitive world that is out there.

The example that the Ambassador used about you can give a man a fish and feed him for a day; you can teach a man to fish and you can feed him for a lifetime, is a very apt point.

Mr. **Gilman**. You can build a dam and it can take 10 or 15 years to build that dam. In the meantime, the poor guy is starving out there.

Mr. **Conrow**. Well, there are other programs for dealing with those issues.

Mr. **Gilman**. Are there enough programs out there to take care of them in the interim?

Mr. **Conrow**. As I said to you, I don't believe that there are enough resources anywhere to deal with all of these needs. We don't have it. We do have programs——

Mr. **Gilman**. True. And that is what I am getting at. The resources are limited and then we take a big chunk of the money for the big projects. Are we at the same time keeping an eye on doing something for the smaller projects to make certain that some of these immediate needs are being taken care of?

Mr. **Conrow**. We are very much mindful of it, and I believe the World Bank is making every effort to do so. They are coordinating with institutions like IFAD, which is designed to work with the small farmers in these countries, very carefully. The African Development Bank and the African Development Fund spend most of their money on small-scale projects in these countries, and the PVO's and our bilateral aid program move in that direction, as well. And I would say even the World Bank's IDA lending program also moves in that direction.

Actually, the structural adjustment lending side of this is really a new phenomenon. It is not something that has been there for a long time. We are trying to respond to the needs that have been identified by the Africans themselves. Again, this came out of the U.N. Special Session on Africa. They identified these areas as being a high priority that needed attention and the World Bank is trying to respond to that.

Mr. **Gilman**. I am not trying to detract from the benefits of those, but I just hope that we don't overlook the other basic necessities as we try to move in that direction.

I have exceeded my time. I would like to thank the gentleman.

And I would like to ask permission, consent of the committee for Mr. Bereuter to submit four questions to Mr. Conrow. Mr. Bereuter regretted that he had to leave earlier.

Mr. **Penny**. Without objection. And Mr. Hall has made the same request of the committee and, without objection, we will allow those questions to be submitted, as well as any other questions that other members might have.

Mr. **Gilman**. Thank you, Mr. Chairman.

Mr. **Penny**. Mr. Mfume.

Mr. **Mfume**. Thank you, Mr. Chairman. How are you doing, Mr. Conrow?

Mr. **Conrow**. Very well. Good to see you again.

Mr. **Mfume**. Well, it is good to see you again. In fact, I think over the last 6 months between this committee and Banking and two other subcommittees I have probably heard more testimony from you than any other individual I know.

Mr. **Conrow**. I hope I am getting through to you. [Laughter.]

Mr. **Mfume**. The good side of that is that with each appearance you become more and more trustworthy. The bad side is that at this rate for 6 more months I will believe anything you tell me. [Laughter.]

Let me commend you, first of all, on your compelling testimony before the Banking Subcommittee on behalf of IDA, and just let you know that it made a difference to several members who were grappling for the first time with this issue and trying to find their way around on it. And I am glad also to know that Mr. Lipton's study is receiving bipartisan readership. I was glad to hear my colleague from New York reference it as well.

I notice that your eyebrow went up when I made reference to the fact that I had gotten a reply from the World Bank regarding my question. Actually, I think it was from the Woodrow Wilson Institute, Peter Kilby, who made that response.

You indicated in your testimony that per capita income was up and that food production was up in some of the sub-Saharan Africa countries. And you said also that some of those countries, perhaps, in your opinion needed concessional assistance as well. You know Congressman Wolpe has introduced legislation calling for mandatory rescheduling of debt. There are several other proposals that are sort of making their way around Congress. And in your testimony you talked briefly about one idea that your Department has.

Do you have some other thoughts in terms of concessional assistance that we might consider?

Mr. CONROW. Well, obviously, priority No. 1 it seems to me is to get IDA through, which is the largest source of concessional financing for Africa and the developing countries generally. Second, would be to look to the African Development Fund, which also is a very important strong concessional window program; and our own AID program in terms of its African focus. I would point out on the AID program that we at Treasury very much are supportive of the effort to liberalize the utilization of those resources. We think it is very important, again, to be able to respond effectively to this joint effort that the IMF and the World Bank are spearheading.

Moving on from these programs, let me say that under my jurisdiction at Treasury. I have responsibility for the Paris Club and the official reschedulings that the U. S. Government enters into. In the case of the Paris Club, we have made in recent time, several significant changes. In the past, Paris Club reschedulings required IMF standby programs. We have new reached agreement amongst the Paris Club creditors that henceforth we will utilize the Structural Adjustment Facility Programs of the IMF in lieu of standbys as a basis for rescheduling to be looked at on a case-by-case basis. There is no longer a prerequirement that there has to be a formal IMF standby program in the case of countries who are eligible for these Structural Adjustment Facility Program loans.

Second, in the Paris Club we have agreed amongst the donors that there will be a relaxation of the rescheduling terms for the poorest countries. The previous limits on rescheduling within the Paris Club was for a total of 10 years with a grace period of 5. Most of the African countries who got into adjustment programs were given the maximum amount of relief that was possible. We have now, as a result of the discussions that led up to the summit in Venice and thereafter, gotten an agreement amongst the major participants in the Paris Club that we will extend those terms on a case-by-case basis to the lowest income countries. It could go to as much as 10–10, an additional 10 years maturity and taking the grace from 5 years to 10 years. So a total of 20 years could be what a country might receive from the Paris Club. There have been three or four countries now since that decision was made that have gotten more concessional relief in the Paris Club.

This brings me to a critical area that we are currently looking at, which is the issue of should the U.S. Government in the Paris Club, reschedule on concessional interest rate terms versus commercial terms for those government entities that are operating on a commercial term basis. This is particularly true for Eximbank and CCC. What we are attempting to do at this point is to get those agencies to at least reschedule on a cost-of-funds basis. Right now both of those institutions reschedule at the cost of funds plus a slight—sometimes not so slight—an additional charge to the borrower. We are trying to get that down.

To move to the next step of actually having Eximbank reschedule on concessional terms generates an enormous set of problems for us. The first, of course, is the budgetary implications that it will have within the Government. Second, the precedent-setting nature of that sort of decision as it relates to other countries not in Africa. To carve it out for Africa is one thing, but when you go concessional rates in the Paris Club on an Exim, it won't be long before Egypt, and the Brazils of the world will be looking for the same sort of treatment. That then gets you into very significant costs to the U.S. Government.

The third component to that, which I am sure you can very much appreciate, is that moving in this direction in the Paris Club would also send a very strong signal on the domestic side here within the United States about interest rates and moving from market rates to concessional rates.

As a result of all of these issues, the Secretary of the Treasury has felt very strongly that it is not appropriate for us to move in that direction. And from my standpoint, as the Deputy Assistant Secretary for the Developing Nations at Treasury, I look at the situation and come to the conclusion that making this adjustment from market rates to concessional rates in the Paris Club does not translate into much benefit to the poorest developing countries. There would be some benefit for a few countries that may be of some importance. But in terms of Africa in general and the problems that these African countries are facing, it really doesn't get you there.

So our bottom line is that for all the damage or potential damage that can be brought about by doing this—it is simply not appropriate. What we would rather explore is how to maximize the utilization of resources that are available, to the extent possible increase them, as we are trying to do here in the IDA exercise, and particularly focus a little bit more on some of the other donors, countries like the Europeans whose aid programs, I must say, in Africa have been less than ideal. Many of them which are based on commercial interests that the Europeans have and really don't fit into a real developmental strategy that we are all trying to pursue. And that is a tough nut to crack, but that is one that we are very much involved in trying to overcome.

Mr. **Mfume**. Yesterday, when you appeared with Assistant Secretary Abrams, you talked about how the two of you, and I assume others at your level, both in Treasury and State, discuss issues and how they may jointly affect both Departments. In terms of the IDA replenishment, has State discussed with you or have both of you come up with an assessment of what the short-term and long-term implications would be if the package doesn't get through—implications on U.S. policy in that region?

Mr. **Conrow**. I don't think we have done any—well, I know we didn't do any formal review of it, but there is no doubt in either my mind or Chester Crocker, who is the Assistant Secretary for Africa, as to the implications of IDA not going forward on Africa. It is devastating, there is no question about it. If the United States cannot secure the authorization for IDA, the replenishment comes tumbling down. It will not go into effect. We have to go back to the drawing board. That could take another year to negotiate with all of the other governments. These governments would have to resubmit this agreement to their legislatures where most of them already have it well advanced in their governments now as they try to fulfill the legislative requirements that they have under their own rules and procedures.

So the effect of our not being able to go forward with IDA would be to stop IDA altogether. We would have to go back, renegotiate it, and we are talking about a couple years' time. And we lose very valuable time in this development effort. It would be devastating, there is no question about it.

Mr. **Mfume**. Just because we have got a vote and will have to leave in a second, let me just cut you off for a moment and follow up on something that the Ambassador said about Korea I think contributing $17 million. Are we putting pressure on nations such as that, who are part of that Pacific Basin who are enjoying newfound prosperity, to do more since they were originally benefiting from the program?

Mr. **Conrow**. I wouldn't say pressure, but we certainly do encourage them.

Mr. **Mfume**. Good.

Mr. **Conrow**. In fact, the idea of encouraging Korea was my idea. I thought we should see if we could bring them into this process. It was a modest offer that they put on the table, which is to be welcomed. We have talked with World Bank management about our desire that the next time around when we do IDA-9 we should get them involved in this negotiation much more systematically than what they have been.

What happened this time was that Korea was brought to the table rather late in the negotiating process, and the better way to do it is to have them there at the outset.

Mr. **Mfume**. Thank you very much.

Mr. Chairman, I would like to be able to submit questions to the next panel. I won't be around.

Mr. **Penny**. Without objection.

Mr. **Mfume**. Thank you, Mr. Conrow.

Mr. **Conrow**. You are welcome.

Mr. **Penny**. Thank you, Mr. Conrow, for your testimony. We appreciate it, and wish you luck as you do a little lobbying the next week on funding levels for IDA.

Mr. **Conrow**. Thank you.

Mr. **Penny**. We have two final witnesses. I will ask them to come forward together, Mr. Mellor and Ms. Lancaster. They are both well-known experts on international development issues with particular interests in the issue under discussion this morning.

John Mellor is director of the International Food Policy Research Institute. Carol Lancaster is the director of African studies at Georgetown University School of Foreign Service. They will both make presentations.

I would remind you that your written remarks will be included in the record and you are free to summarize as you wish.

I will hang around for another 4 or 5 minutes and then I will have to run. So, if necessary, we will come back and pick up the rest of your testimony.

STATEMENT OF JOHN MELLOR, DIRECTOR, INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

Mr. **Mellor**. Thank you very much for this opportunity. I prepared a very brief written statement which I will be happy to introduce into the record.

I want to convey the following points. First, we know that development and foreign assistance in Africa have not gone well over the last decade or so. It is very important as we look ahead to raise the question are we learning from that experience, who is learning from it, and how can we improve the record in the future. It is very important not to take the position that in a situation in which foreign assistance has been very large in Africa that all the mistakes are made by the Africans. There are, obviously, major mistakes made in foreign assistance.

Second, the process of structural adjustment is going quite well in Africa. One can clearly see, for example, that agricultural prices have moved up very substantially in relative and in real terms throughout Africa; exchange rates are improving and a number of other changes are going on.

The point I want to draw from that is that IDA and foreign assistance generally has been and will continue to be heavily in projects, including projects for very poor people. The purpose of structural adjustment is to create an environment in which projects can then be effective. We have had an environment in Africa in which projects have not been very effective. We are moving into a better situation.

It is clear that the poverty situation in Africa is such that development assistance loans have to be on a substantially concessional basis. We are seeing created in Africa a better environment for IDA to be effective, but we need to continue concessional assistance.

My final point really goes back to the first one—we are learning from experience. It is important that we pursue studies, pursue analysis which allows us to see what has gone wrong in the past and constantly adjust to that. There is not a simple set of rules with respect to development assistance to Africa that tells how to succeed. Some broad strategic positions are needed, then we have got to get down to the nitty-gritty questions. But we don't have the answers to these questions, and the answers are going to be changing as time goes on.

It is very important that the congressional oversight process look at that kind of work, encourage it, see that it is going on. I made a specific reference to a massive study in the World Bank that is going on at the present time. I know that Carol's group is doing some studies in this area, as we are at IFPRI. It is very important that those move into use.

Thank you.

Mr. PENNY. Thank you.

[The prepared statement of Mr. Mellor appears at the conclusion of the hearing, see p. 68.]

Mr. PENNY. Ms. Lancaster.

STATEMENT OF CAROL LANCASTER, DIRECTOR OF AFRICA STUDIES, SCHOOL OF FOREIGN SERVICE, GEORGETOWN UNIVERSITY

Ms. LANCASTER. Why don't I jettison my summary remarks and simply tell a story that I hope illustrates some of the points I wanted to make.

A couple of years ago, in 1984, I was in Ghana. Ghana was at that stage at one of the lowest points in its economic history. The economy was a wreck. More of a wreck than any economy I have seen outside of a war-torn economy. You could see in the streets of Accra ginger-color-haired people suffering from kwashiorkor. There were few medicines to be had even in Accra and none in the villages. Schools were without books. The roads were so bad that farmers couldn't get their goods to market. This mess in Ghana had occurred very largely I think because of 20 years of economic mismanagement by the Ghanians plus the very severe shocks that had turned their terms of trade against them.

The point of it is to suggest that the economic problems in Africa have affected the poor in that part of the world as much as they have affected anybody else, and the need for structural change is as great in order to restore economic conditions that benefit the poor as it is to benefit anybody else. That is point No. 1.

Point No. 2 is that I think we have to bear in mind in terms of African structural adjustment that the majority of the poor are farmers in the rural areas, and much of the thrust of policy reform is to shift income from urban wage-earners to the rural producers, and that ultimately should benefit the poor. One needs to see the structural adjustment program in that context.

I feel the pressure that you have to go and take a vote. Why don't I stop right there.

Mr. PENNY. If I can get back, I will. I have another commitment at 1 p.m., but I think just to get a chance to put a couple of questions in that I would ask you to wait. I will run right back and then we will wrap this up by 1 o'clock.

Thank you.

[Recess.]

Mr. PENNY. Ms. Lancaster, I rushed you, and if you want to conclude your testimony. I have a couple of questions, and then we can wrap things up.

Ms. LANCASTER. I was talking about one of the fundamental thrusts of the policy reforms that IDA and others have supported in Africa, which involves a shift of income from the urban to the rural areas. And as I think I said, the rural areas are where the poor in Africa live, the poorest in Africa. In that sense policy reforms can have a very important positive income effect on the rural poor.

I won't go into any of the other aspects of policy reform, we have so little time, but just raise one or two issues. The obvious concern of this committee with the social costs of reform is an important one. The World Bank has shown increasing concern for this problem and is, obviously, thinking about how to deal with it.

I would just add one other issue that concerns me, and it involves this question of the poor and the impact on the poor of the whole policy reform movement. Because incomes, in effect, are being shifted from the urban to the rural areas, they are also being shifted from the powerful to the powerless in poor countries. My concern is that how in the long run are the rural poor in Africa going to protect their gains, gains which we can see already in terms of increased incomes, once the pressures for reform are on African governments are easy. Those pressures are coming from the Bank and from aid donors, as well as from economic conditions themselves.

I don't have an answer to that question, but what you are dealing with is a large group of relatively powerless people who rarely have a political voice and have been unable to protect their economic interests in the face of very strong efforts on the part of political elites in Africa to advance their own economic interests. We are trying to change that. I am not convinced that we can change that permanently. That, I think, is a very fundamental and long-term issue.

You can go back to the Alliance for Progress and see a similar problem, where we were basically asking political elites to make land reforms involving the land they owned and to make tax reforms that would assess them with more taxes. I don't think the long-term results were very positive. We are doing a little bit of a similar thing in Africa, and I am not sure that long run question has yet been addressed.

Thank you very much.

[The prepared statement of Ms. Lancaster appears at the conclusion of the hearing, see p. 70.]

Mr. PENNY. You mentioned Ghana in your first remarks. Do you feel that the reform program underway there is an example that we should follow in implementing that kind of a policy in other nations? Because I know you have a strong feeling that we have to have a coordinated effort, we have got to look at long-term implications, and I am just wondering is there an example out there that we can look at. Is Ghana an example?

Ms. LANCASTER. I think to point to successes and failures is to tempt fate, and the Africans have taught us not to tempt fate on this. Last month's success in Zambia was yesterday's failure because the Zambians for one reason or another fell off the wagon.

We are involved in a process and that is why it is so difficult to make definitive assessments. And the process changes and moves forward and moves backward over time. Ghana is probably the country that is most frequently pointed to as having implemented the broadest range of reforms and having kept with them for the longest period of time. You have to bear in mind that the Ghanian economy had really hit rock bottom before the reforms.

Food is now in the markets. Things are starting to improve in Ghana. Some of the roads are being rehabilitated. Economic growth is now occurring at an even faster rate than population growth. I think it was 4.5 percent last year.

We are beginning to see signs of improvement in Ghana. But what Ghana illustrates for Africa is that the road to economic recovery, with even the best of policies and with a fair amount of support from external donors, is going to be a long one and a painful one. These economies are rigid. They are difficult to change, and you have obvious political problems in making major shifts.

So I think Ghana is probably one of our most hopeful experiments—I hate to do this because tomorrow I may read in the newspaper something else.

Mr. PENNY. In determining an aid policy what would you recommend in terms of IDA's approach? Are we conducting negotiations as to what that policy ought to be and what strings are attached to those loans, or are we going in in a more unilateral way?

Ms. LANCASTER. Obviously the ideal that both AID and IDA or the World Bank and others talk about is a policy dialogue where the lending party or parties get together with the borrowing parties, exchange views and analyses and come to a general agreement on what should be done. I think we also probably have seen in Africa and elsewhere a number of borrowing countries who are really desperate for foreign exchange, and a number of lending countries who have some very strong ideas about what should be changed and, obviously, have the balance of leverage in these negotiations.

Policies area adopted or agreed to and not implemented from time to time, policies that were more donor policies than recipient policies. Obviously the factors influencing the sustainability of policies can also change and recipients can decide that maybe reforms weren't such a good idea after all, as the Zambians have just done.

We are seeing today the World Bank and other major donors playing a very important economic role in macroeconomic decisionmaking in these countries because of the leverage of their funding and the policies they have an interest in. I don't think there is any doubt about that, for better or for worse. I think it is probably for better.

Mr. PENNY. Either of you can respond to this. Maybe Mr. Mellor would have an opinion.

Relative to the other donor entities, what influence does IDA have in developing a policy for a particular country? I mean, how strong is their influence compared to some of the other lending institutions?

Mr. **Mellor**. I think one would have to say that it is the dominant element now. The proportion of lending from IDA and the World Bank totally is not dominating, and that is certainly true in Africa. The sum of the other donors is very substantial. But I think when you combine the fact that the Bank group is a major element with a somewhat higher degree of credibility on macro policy issues as compared to a specific national donor, they are going to swing just a great deal more weight.

And if I could add a point there. I think the basic thrust of what I was saying, that the macro policy adjustments are well along, is to emphasize that we want to be very careful that the World Bank and IDA do not get tooled up in a way so that all they can do is macro analysis and get too far away from the projects that also have to be improved.

And I think it is worth noting on Ghana that when the macro policies get straightened out you are probably going to get a much better response than you are in most African countries because Ghana started out with a better physical infrastructure of roads and services, and so on, and a much higher proportion of their GNP educated, well trained, and they had good institutions. I hate to put it this way, but the Ghana situation is almost like a wartime situation. You had a pretty good structure and then it got torn down. Well, it is easier to put those back up if they were there in the first place.

With a lot of African countries, this capacity to carry out projects and to tune the macro policies down to micro policies is not very good. So you have to be very careful that we are not swept away too much in this context of macro policy so that we miss all the little things that have to be done and lose our capacity to work on those.

Mr. **Penny**. How about the proportion of IDA money that goes to poverty sectors? There are some critics that say that we are losing that emphasis. What is your assessment?

Mr. **Mellor**. I would like to make the following points on that. First of all, I agree entirely with Carol that these macro adjustments are not just for the rich, they are for everybody. And frankly, when you turn away from the market, if you don't use market forces to ration goods and services, the poor in the nonmarket process tend to come out even worse. That is because the nonmarket process is political and it is the richer people in developing countries that got better access to the political process for getting things allocated to them. So that the market is hard on the poor but the other process is even harder. So I don't want anything I say to be interpreted as saying that these macro adjustments are bad in the long run for the poor.

The second point, of course, is that the poor even more than the rest of us are dead in the long run. The long run may be closer for them. These macro processes do take time. What are we doing in the short run to try and cushion the poor from taking the brunt of those adjustments? I think that is a place where we have not been thinking enough about direct programs to cushion the poor, to see to it that they are getting some purchasing power maintained in the short run for getting food, et cetera.

And my final point is that we do want to be very careful, and here I would like to suggest some cautions on a number of things that the Congress is putting forward. We do want to be careful that we don't allocate too much of the development effort directly to the lowest income people for the simple reason that they don't control much in the way of resources, and you may by excessively directing your program to the poorest people be missing the things that come up a little higher, that work for the little more prosperous farmer, who when he gets going will make some employment for poorer people through direct employment, purchasing power, and so on.

In other words, I am saying that don't leave it just with macro policy, do worry about projects, but don't get too much of your projects down to the very poorest people who have very little access to resources. We have got to have programs for that middle farmer through research, through extensions, through credit, and so on, that are going to get the growth process going.

So it is a very tricky question of balance, and at some point the pressures the Congress is putting on are good but you have to be careful they don't go too far. Let me give you a very specific example. When you start specifying how much of credit programs have to go to poor people, that is good, but don't specify too much. Because you will get beyond their capacity to absorb it, you will be pulling too much away from the people who can use some of that in a way that makes jobs for very poor people. So it is a very delicate balance problem.

Thank you.

Mr. **Penny**. I thank you both for your testimony.

With that, the meeting stands adjourned.

[Whereupon, at 1 p.m., the select committee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF HON. TONY P. HALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

MR. CHAIRMAN, I AM HAPPY TO BE AT THIS HEARING TODAY ON THE ACTIVITIES OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) OF THE WORLD BANK IN AFRICA.

THE WORK OF IDA CAN IMPROVE THE WELL-BEING OF MILLIONS OF PEOPLE IN AFRICA AND THROUGHOUT THE DEVELOPING WORLD. WHEN I SPEAK OF "WELL-BEING," I AM REFERRING TO NATIONS WHERE ONE-THIRD OF THE CHILDREN MAY DIE BEFORE THE AGE OF FIVE. WHERE 40% OR MORE MAY BE STUNTED BY MALNUTRITION. WHERE, IF A BAG OF SEEDS OR FERTILIZER ARRIVES, THERE MAY BE NO ONE WHO CAN READ THE INSTRUCTIONS. WHERE THE DAILY WATER YOU DRINK STANDS A 50-50 CHANCE OF MAKING YOU SICK. WHERE THERE IS NO DOCTOR, NO HEALTH WORKER, NO MEDICINE. AND WHERE CHILDREN HAVE NOT BEEN VACCINATED AGAINST THE SIX PREVENTABLE DEADLY DISEASES.

THESE ARE THE AREAS WHERE IDA'S EFFORTS MUST BE DIRECTED. THEY MAY SEEM FAR REMOVED FROM THE CONCERN OF REFORMING THE ECONOMIC POLICIES OF THESE NATIONS, BUT IT HAS BEEN SHOWN REPEATEDLY THAT PUTTING RESOURCES IN THE HANDS OF THE POOR IS NOT JUST GOOD SOCIAL POLICY BUT EXCELLENT ECONOMICS.

HOW DO WE BRIDGE THE GAP BETWEEN THE TALENTS AND RESOURCES OF THE BANK AS APPLIED AT THE POLICY LEVEL, AND THE BASIC NEEDS OF THE POOREST OF THE POOR IN THE DEVELOPING WORLD? THIS IS THE CHALLENGE

FOR IDA IN AFRICA, A CHALLENGE THAT INVOLVES LIFE-AND-DEATH ISSUES FOR MILLIONS. THE URGENCY OF THIS CHALLENGE REQUIRES BOLD AND INNOVATIVE ACTION BY IDA AND THE WORLD BANK IN GENERAL.

I WOULD LIKE TO CALL THE ATTENTION OF OUR WITNESSES TO TWO PROMISING AREAS FOR ACTION BY THE BANK. THE FIRST RELATES TO NON-GOVERNMENTAL ORGANIZATIONS (NGO'S). NGO'S HAVE A VITAL ROLE TO PLAY AT THE GRASSROOTS LEVEL. THROUGH ITS SPECIAL OPERATIONS BUDGET, THE BANK HAS GRANT RESOURCES THAT CAN BE MADE AVAILABLE TO NGO'S FOR A VARIETY OF ACTIVITIES. ONE MIGHT THINK THIS MEANS NEW AND EXPANDED PROJECTS, BUT I WOULD ENCOURAGE THE BANK TO MAKE IMAGINATIVE USE OF CURRENTLY AVAILABLE RESOURCES. THE BANK SHOULD CONSIDER PROVIDING EACH MISSION WITH ACCESS TO GRANT FUNDS FOR INDIGENOUS NGO'S THAT COULD BE APPLIED AT THE VILLAGE LEVEL FOR THE POOREST OF THE POOR. I WOULD SUGGEST THAT AN INITIAL $25 MILLION BE SET ASIDE FOR THIS PURPOSE FOR READY AVAILABILITY IN THE SPECIAL OPERATIONS BUDGET.

THE SECOND AREA IS THE RAPID DISBURSEMENT OF SOCIAL SECTOR LOANS. THERE HAVE BEEN SOME ENCOURAGING EXAMPLES OF THIS, SUCH AS THE EDUCATION SECTOR ADJUSTMENT CREDIT IN GHANA WHERE RESOURCES WILL FLOW IMMEDIATELY TO THE POOR FOR IMPROVED ACCESS TO PRIMARY EDUCATION. I UNDERSTAND THE BANK ALSO IS CONTEMPLATING AN ASSESSMENT OF THE SOCIAL DIMENSIONS OF ITS STRUCTURAL ADJUSTMENT ACTIVITIES IN AFRICA.

SUCH EFFORTS ARE COMMENDABLE, BUT NEED TO BE STRENGTHENED. I BELIEVE IT IS APPROPRIATE TO ESTABLISH A TARGET FOR LOANS THAT PUT RESOURCES IMMEDIATELY INTO THE HANDS OF THE POOREST OF THE POOR. I WOULD URGE THE BANK TO CONSIDER SETTING ASIDE 10% OF ITS LENDING

PORTFOLIO FOR SUCH ACTIVITIES.

THE GOAL OF INCREASING THE POVERTY ORIENTATION OF THE BANK, PARTICULARLY THROUGH IDA, IS ONE WHICH IS SHARED BY MANY OF MY COLLEAGUES. THIS HAS BEEN DEMONSTRATED RECENTLY IN THE POVERTY ALLEVIATION LANGUAGE WHICH HAS BEEN ADDED BY THE BANKING COMMITTEE TO THE IDA REPLENISHMENT BILL (H.R. 2403). I ESPECIALLY COMMEND THE EFFORTS IN THIS REGARD BY MY COLLEAGUE ON THE HUNGER COMMITTEE, THE VICE CHAIRMAN OF THE INTERNATIONAL TASK FORCE, MR. BEREUTER.

I AM LOOKING FORWARD TO THE TESTIMONY OF OUR EXPERT WITNESSES AND TO AN ONGOING DIALOGUE ON MAKING THE WORLD BANK A MORE EFFECTIVE INSTRUMENT IN THE FIGHT AGAINST POVERTY IN THE DEVELOPING WORLD.

PREPARED STATEMENT OF HIS EXCELLENCY FALILOU KANE, AMBASSADOR OF SENEGAL TO THE UNITED STATES OF AMERICA

Mr. Chairman:

Let me thank you and your colleagues for giving me the opportunity to attend this meeting of the Select Committee on Hunger devoted to the IDA replenishment for Sub-Saharan Africa.

I am aware that my presentation may be incomplete for various reasons, but I am asking for your indulgence.

At the outset of my presentation, I want to stress the fact that today the International Development Association -the so called soft loan window of the World Bank- is the only international financial institution providing assistance in long term -50 years with 10 years grace- without interest -0.75% + 0.5% for administrative purposes- to the low income countries -a great many of which are in Sub-Saharan Africa-.The needs of these countries are growing while their per capita incomes are declining to almost the level of the 50s, before independance for a majority of them. Added to that, the deteri ration of the terms of trade, the falling prices of their raw materials, the instability of the exchange rates, the aggravati of the external debt burden, and, finally, the stagnation and/or the decline of bilateral aid would justify a higher level of IDA replenishment.

An agreement had been reached after four meetings in Rome on December 15, 1986 to an amount of $ 12.4 billions for a period of three years starting on July 1, 1987.

- $ 11.5 billions from regular contributors,
- $ 900 millions from additional contributions of certain countries -Japan, Netherlands, Italy, Federal Republic of Germany, United Kingdom-.

I. Historical Background

IDA was established in 1960 to meet the external financing needs of the poorer countries, whose economies could not bear the cost of IBRD loans on standard terms. The terms of credits granted by the Association have remained unchanged since 1961: 50-year maturity and a 10-year grace period. IDA credits are interest-free, but a service charge of 0.75% is applied to disbursed funds and, since 1982, a commitment fee of 0.5% on the undisbursed balance of the credit. Today, IDA is the principal source of concessional aid for low-income countries.

Since its creation in 1960, IDA's resources have been replenished seven times. The earlier replenishments provided the Association with sufficient resources to permit an increase in the real value of its annual commitments. IDA operations expanded considerably during the years 1965-80, at an average annual rate of 20%. The aim of increasing IDA's resources in real terms has, however, suffered a serious setback in recent years.

During the 1980s, IDA's average annual commitments have declined steadily, from $3.5 billion in 1981 to about $3.1 in 1986. This decline can be attributed to the conjunction of two factors: the IDA-6 crisis and the inadequacy of the Seventh Replenishment. In the first place, the reduction in IDA operations during 1982-84 can be explained in part by the delay in payment of IDA-6 contributions consequent on the stretching-out of the United States share. Following this reduction, the agreement on the Seventh Replenishment of IDA has led to an accentuation of the decline during the last two years. The amount of IDA-7 was set at $9 billion, representing a reduction of $40% in real value compared with the figure of $12 billion for IDA-6. Last year the donor countries established the Special Facility for Sub-Saharan Africa in an amount of $1.5 billion to mitigate the unfortunate effects of the reduction of IDA resources on the overall operations of the Wold Bank and to encourage the African countries in their adjustment policies.

Over the course of the years, the number of IDA donor countries has grown. Today, there are 34. The share of each country in the total contributions to IDA has varied as their economic situation has changed. To take an example, the United States' share has fallen from 42% at the time of the initial subscription to 25% for IDA-7, while Japan's share has risen from 4% to 18.7% over the same period.

The financial assistance provided by IDA constitutes an effective means of promoting economic development, increasing the productivity of small farmers and alleviating poverty in low-income countries. The rate of return on projects financed by the Association has been relatively high, around 18%. Through the assistance it has provided, IDA has also been able to engage in fruitful dialogue with the governments of the beneficiary countries about the economic policies pursued by them and has been able to promote more efficient management of sectors and projects. The cumulative total of credits granted by IDA amounte on June 30, 1986, to $39.7 billion, of which more than 13.5 billion had been granted to a single country, India. On the other hand, all the African countries together obtained only some $11 billion during the same period. It is true that considerable efforts have been made to expand IDA's operations in Sub-Saharan Africa, so as to reflect more closely the priority accorded to this part of the world in the World Bank's aid strategy in the past few years. The major effect of the change in direction and in priorities within the World Bank Group has been a notable increase in the share of Sub-Saharan Africa in IDA operations, from 24.9% in 1980 to 36.4% in 1986. However, the credits granted by IDA to Africa as a whole have tended to remain at about $1 billion annually, as a consequence of the reduction of the Association's availabe funds during the past few years.

In recent years, lack of resources has forced IDA to concentrate its operations on the poorest countries. In fact, about 95% of IDA credits go to countries with a per capita income of less than $400. the allocation of IDA credits by sector has also changed over the years in order to meet the needs of the poorer countries. In the early years, IDA assistance was largely directed towards investment in infrastructure; more than half of IDA credits went to this sector. However, as food deficiencies and balance of payments disequilibria worsened in the poorer countries, it became clear that for these countries agricultural production must be the first priority. The new direction of lending for agriculture is aimed especially at increasing productivity and raising the incomes of the small farmers. The allocation of IDA operations by sector reflects the relatively low level of development of the beneficiary countries. The major share of operations in fact goes to infrastructure and agriculture. To illustrate this point, it is enough to note that 45% of IDA credits went to agriculture, 29% to infrastructure and 15% to the social sectors.

II. Prospects for IDA-8

The economic situation in a number of low-income countries has not benefited from the improvement in the world economy in recent years. The outlook for the African countries is particularly grim. The growth of gross domestic product in these countries has been poor, and per capita income has continued to fall. They have been forced to cut imports because of a decline in their export earnings due to the low level of demand and the exceptionally low prices of primary commodities. The reduction in imports has not only led to a decline in capital investment, it has also placed limits on the capacity for growth of these countries. Investment in Africa is now the lowest in the Third World. Moreover, the slowdown in GDP growth and the decline in export earnings have combined to exacerbate the debt problem for the Sub-Saharan countries. External debt is now estimated at $90 billion. The service of this debt, amounting to some $11.5 billion in 1985, absorbs a substantial proportion of export earnings. In a number of African countries, the ratio of debt service to export earnings is now more than 50%. Moreover, a large part of the debt of these countries represents senior loans, such as those granted by the International Monetary Fund, in particular, and is therefore not eligible for rescheduling.

The adjustment policies undertaken by the African countries in recent years, with the assistance of the World Bank, certainly offer improved prospects for long-term growth in the region and better hopes of attracting private foreign investment. But considerably increased flows of aid to the African countries will be needed during the next few years if the reform measures that have been undertaken are to be successful. The priority accorded to Sub-Saharan Africa in the allocation of IDA resources therefore needs to be sustained; it should be reflected in a substantial increase in the credits granted to the region under IDA-8.

The situation of the low-income countries in Asia is entirely different from that of the African countries. Recent developments in the economies of the Asian countries, particularly China and India, appear to be definitely more favorable. These two countries have achieved higher rates of growth and have attracted high levels of investment. Their debt service ratio is relatively low and they enjoy access to capital markets on favorable terms. It would therefore be unjust in allocating IDA-8 resources, to place these two major countries in the same category as the least developed countries in Sub-Saharan Africa.

According to a recent World Bank study, net resource transfers to IDA beneficiary countries fell from $12.7 billion to $9 billion between 1980 and 1983, a 30% decline. The greater part of this decline can be attributed to a reduction in official lending, from $4.8 billion to 2.6 billion in the same period. The same study also suggests that the low-income countries will need $30.5 billion annually during the period of the Eighth Replenishment (1988-90). Bank Management has estimated that a replenishment of the order of $15 billion would enable IDA to help meet the needs of the low-income countries and to expand operations in Sub-Saharan Africa. It has indicated that a figure of $12 billion should be regarded as the minimum for IDA-8. Such an amount would at best make it possible to maintain the real value of the resources allocated under IDA-7 and the Special Facility for Sub-Saharan Africa. It is also generally agreed that the amount of IDA credits granted to China and India is likely to be at least $3.2 billion for 1988-90. On the other hand, it is by no means certain what the level of IDA operations in Sub-Saharan Africa will be during the same period, even though it has been agreed that this region shall continue to have priority. The amount may be somewhere between $5 billion and $6 billion. The outcome will depend above all on the attitud of the African countries and the determination with which they defend their interests in the World Bank Group. The African countries should emphasize to friendly donor countries the importance of IDA operations for the future of Africa, and more particularly for the success of the policies of adjustment with growth pursued by the countries in that region.

The steady deterioration in the economic situation of the African countries since the early 1970s, and the introduction by the governments of the region in recent years of far reaching policy reforms, amply justifiy an expansion of IDA operations in Sub-Saharan Africa in the coming years. An increase in credits to African countries under IDA-8 would allow the World Bank to strengthen its financial support for growth-oriented adjustment policies in Africa during the 1980s. Africa's share in IDA resources should be increased to at least 50% during the period 1988-90.

III. Africa Priority Program for Economic Recovery (APPER) 1986-1990

This program was adopted by the 1985 Organization of African Unity conference, and by the United Nations Special Session on June 1, 1986.

The APPER Programme of the OAU is an economic plan which seeks to address, in a comprehensive fashion, Africa's debt, trade, and development policy issues;

The APPER Program is a successor of Lagos Plan of Action (1980) and other African Economic Policy initiatives;

The APPER Program issues are not new issues. They are a continuation of twenty-four years of OAU policy advocacy efforts;

Africa has put forward a 128 billions dollars five-year program for economic recovery ($25.6 billions/ year);

It estimated that Africa needs only 35.6% of the $128 billion - or $45.5 billion - from external sources; (This amounts to $9.1 billion per year);

African Nations have committed 64.4% of the $128 billion -or a total of 82.5 billion dollars- or $137.3 per capita;

This program is very modest when we keep in mind that Africa is more than three times bigger than the United States in,terms of geography, and 2.5 times as large as the U.S. in terms of population;

The primary emphasis of the APPER budget is on economic development and on agricultural-related economic development in particular. The program is not designed to implement social welfare type programs; it is, rather, a market development strategy designed to increase Africa's global market potential from the present $300 billion GDP;

For comparative purposes: the State of California alone with its 159,000 square miles is less than 1/70th (or 1.4%) the size of Africa. California has a budget of $50.7 billion (in FY 1987 - including $14.7 billion in Federal government aid). This State budget is 2 times the amount of the annual budget for the economic recovery for all of Africa.

Table A

Resource Requirements for Africa's Priority Program (APPER)

(billion U.S. $)

Sector	Total Cost*	African Commitments*	External Resource Requirements*
Agriculture	57.4	40.3	17.1
Other Agricultural Support Sectors	60.1	36.7	23.4
Drought and Desertification	3.4	1.5	1.9
Human Resources Development	7.2	4.0	3.1

*Discrepancies in totals are due to rounding of figures.

Listing of APPER Program Sector Sub-categories

Agriculture:

1. increased food production
2. arable land development
3. livestock and animal production and fisheries
4. agricultural mechanization and animal traction
5. food storage and marketing
6. water resource management, low-cost irrigation
7. desertification control and re-afforestation
8. agricultural research, extension, and human resources

Agricultural Support:

1. feeder roads construction and maintainance
2. railway rehabilitation
3. fertilizer, food processing and agriculture-related industrial development
4. rural development
5. land-use planning
6. rural housing
7. safe drinking water and sanitation in rural areas, and child immunization programs in rural areas

Drought and Desertification:

1. afforestation
2. alternative energy (other than wood fuel)
3. water conservation
4. land-management
5. drought monitoring

Human Resources Development:

1. improvement of management institutions
2. strengthening human resources planning and management (including management training institutes and productivity centers

Table #B

The Financing of APPER

(Africa's Priority Program for Economic Recovery)
March 1986 OAU Estimates
- billion U.S. $ -

Region	Total Cost	African Resources Commitments (%)	External Resources Requirements (%)
North Africa	55.9	50.9(91.0)	5.0(9.0)
Non-Sahelian West Africa	21.9	10.5(48.1)	11.4(58.9)
East Africa	21.1	9.5(45.1)	11.6(54.6)
Central Africa	12.8	7.5(58.1)	5.4(41.9)
Southern Africa	9.4	3.6(38.0)	5.8(62.0)
Sahelian West Africa	5.6	0.2(4.2)	5.4(95.8)
African Islands Indian Ocean	1.3	0.2(15.6)	1.1(84.4)
Total Africa	128.1	82.5(64.4)	45.5(35.6)

Table #C

General Data on Africa

(Source: 1987 Population Reference Bureau, Inc. Data)

Population Estimate (mid-1987)	601 million
Population Projected: Year 2000	880 million
Population Projected: Year 2020	1,479 million

Range of Population Size of African Countries:

Countries with Largest Population in mid-1987:	
1. Nigeria	108.6 million
2. Egypt	51.9 million
3. Ethiopia	46.0 million
Countries with Smallest Populations in mid-1987:	
1. Seychelles	.1 million
2. Sao Tome and Principe	.1 million
3. Djibouti	.3 million

Per Capita GNP:

Africa	$710
Asia	$970
Latin America/Caribbean	$1,700
Europe	$7,280
U.S.A.	$16,400
U.S.S.R.	$7,400

Geographic Aspects - Square Miles:

Africa:	11,596.000	1. Sudan	969,494
North America:	9.385,000	2. Algeria	919,591
		3. Zaire	905,564
United States:	3,615,123	4. Libya	679,359
China:	3,691,502	5. Chad	495,753
Europe:	3,800,000	6. Niger	489,189
		7. Angola	481,351

n.b. The Sahara desert is as large as the U.S.; the above 7 African countries combined are as large as the U.S. Sudan is nearly as large as the U.S. West Coast states combined; Algeria is as large as the East Coast combined; Zaire is as large as the Southern states combined. Mozambique, Zambia, Namibia, Mali, Mauritania, Nigeria, Tanzania, Ethiopia, and Egypt are each larger than Texas (276,339 sq. miles) - in combination, these 9 states are 3.4 million sq. miles, nearly the size of the U.S.

U.S. Overseas Development Assistance Aspects:

	1986 Actual	1987 Estimate	1988 Proposed
Total U.S. ODA Outlays	7.2	6.2	5.8
Africa (Subsaharan)	1.1(15.3%)	0.8(12.9%)	0.6(10.3%)

n.b. The amount and % of ODA $ to Africa has declined, but the % of the African share has "increased" relative to the other regional AID programs: 19%/1985; 21.5%/1986; 22%/1987; 29.6%/1988. The explanation is the rise of Central AID Bureau programs - e.g. science and technology, and multi-regional programs.

IV. A Summary of some development effects of African economic reforms

A study conducted by the Department of State indicates that 2/3 of Sub-Saharan countries - 33 of 45; excluding South Africa and Namibia - have undertaken significant reform measures since 1982. The top ten reformers (Ghana, Madagascar, Malawi, Mali, Nigeria, Senegal, Somalia, Tanzania, Zaïre, and Zambia) represent 49% of the population of the defined portion of Sub-Saharan Africa.

The summary of the USAID survey demonstrates the extent of recent economic reforms in Africa.

-10 countries have decontrolled producer prices;

-10 countries have decontrolled consumer prices;

-20 countries have frozen hiring or reduced public sector employment;

-13 countries have eliminated public agricultural marketing agencies or permitted private sector competition;

-7 countries have given imports of agricultural inputs to the private sector;

-14 countries havec privatized some state enterprise

-8 countries have liquidated some state enterprises;

-21 countries have substantially increased producer prices;

-14 countries havec reduced or eliminated agricultural input subsidies;

-8 countries have reduced or eliminated food subsidi

-16 countries havec reduced or eliminated petroleum subsidies;

-13 countries have realigned exchange rates to more closely reflect real cost of foreign exchange;

-7 of the above have adopted floating market rates.

These reforms have produced sound results in a short period. Eleven (11) countries have food surpluses in 1987 - after experiencing severe drought and famine the previous years -. This means that with good rains and international assistance, Africa can feed itself again and be a net exporter of grain as it used to be before the 60s.

In the case of Senegal, we have undertaken policy reforms since 1980, and we have programs with both the IMF and the World Bank.

The World Bank consultative group on Senegal has met in Paris on March 31, and April 1, 1987. Our program of investment on three years was adopted with $600 millions committed by the donors, annually. Already on June 5, and June 26, Credit agreements were signed with the World Bank, regarding:

1. the Third Structural Adjustment Credit -June 5th- IDA and African Facility -35 millions SDR and 31.1 millions SDR).
2. Development Assistance Project on Education -June 26, for a total of $20 SDR-.

V. In conclusion

IDA commitments in Africa show a slight increase despite the stagnation of the Association's resources of about 3.7% compared with fiscal 1985. Africa's share of IDA resources remains relatively stable, at 36.4% in 1985 and 36.5% in 1986.

The table below sets out the figures for IBRD loans and IDA credits to African countries between 1982 and 1986.

LOANS AND CREDITS TO AFRICA
(in $ millions)

	IBRD Loans		IDA Credits		Total	
	Amount	%	Amount	%	Amount	%
1982	1863.2	18.03	839.8	31.26	2703.0	20.70
1983	1370.0	12.00	1231.0	36.80	2601.0	17.80
1984	2432.3	20.35	1212.9	33.92	3645.2	23.40
1985	1367.5	12.03	1103.6	36.44	2471.1	17.17
1986	1536.9	11.66	1145.3	36.47	2682.2	16.43

IBRD/IDA commitments in Sub-Saharan Africa

As regards IBRD lending, Sub-Saharan Africa's share rose significantly from 4.34% in fiscal 1985 to 6.84% in 1986. However, this is still far from the figures achieved in 1982 (9.31%) and 1984 (9.66%).

As noted above, Sub-Saharan Africa's share of IDA resources remains relatively stable.

LOANS AND CREDITS TO SUB-SAHARAN AFRICA
(in $ millions)

	IBRD Loans		IDA Credits		Total	
	Amount	%	Amount	%	Amount	%
1982	961.7	9.31	839.8	31.26	1801.5	13.84
1983	563.0	5.00	1231.0	36.80	1794.0	12.39
1984	1155.4	9.66	1212.9	33.92	2368.3	15.25
1985	493.6	4.34	1103.6	36.44	1597.2	11.10
1986	901.2	6.84	1145.3	36.47	2046.5	12.54

IDA-8 replenishment bears great hopes for low income countries in Africa.

We would prefer to keep the same conditions of eligibility and criteria of disbursment -50 years with 10 years grace period-. However, the constributors have agreed on different conditions -40 or 35 years with 10 years grace-. In this case, it is quite reasonable that we ask that 50% of IDA funds be allocated to Sub-Saharan Africa.

Mr. Chairman,

This month of July our world had reached the 5 billion mark for its inhabitants. In the year 2000 -in thirteen years- Africa will have about 880 million population. Only teachin to these people how to attain self sufficiency in food productio -and not giving food aid- can help them in the long run.

The U.S. generosity has help Africa to overcome the famine situation of 1984/1985 and we hope that on the bilateral level the "Africa Fund" under consideration in Congress will be adopted with an adequate funding.

Now, we urge you, by accepting the level of $12.4 billion of which the U.S. contribution must be $2.875 billion -25% of the total amount-, for IDA-8 replenishment, to give new expectations to Africans that the year 2000 will not be the doomsyear for a great many of them.

Thank you for your kind attention.

PREPARED STATEMENT OF JAMES W. CONROW, DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS, U.S. DEPARTMENT OF THE TREASURY

Thank you for the opportunity to come before this Committee to discuss the IDA VIII replenishment and its importance for Sub-Saharan Africa. The Administration strongly believes that the IDA VIII replenishment is the most effective vehicle for providing assistance to further economic development and growth in the poorest countries and to attack the underlying causes of poverty in these countries.

We are all aware of the severe problems confronting the Sub-Saharan African region, a region which ranks at or near the bottom on virtually all the basic indicators of development and well-being. Within the region, there are significant variations among countries. The low income, Sub-Saharan African countries are in particularly bad straits, in terms of such factors as income per capita ($210 in 1984); life expectancy (48 years); caloric intake (90 percent of daily requirements); and education (13 percent of eligible children enrolled in secondary schools in 1983). In economic development terms, the low income Sub-Saharan African countries have effectively lost ground for over a decade, as real income per capita declined on average 0.1 percent a year over the period 1965-84. Improving the situation in these countries poses a major challenge to both the countries themselves and the international community at large.

There is a strategy for meeting this challenge, a strategy which has received broad support from all the interested parties -- governments of countries in the region, donor countries, and the international financial and development institutions. It is based on the concept that to restore economic and financial stability and to achieve stronger sustained economic growth, fundamental reforms of policies and systems in the region are necessary with support from the international community.

In the 1970's and early 1980's, the International Monetary Fund provided increasing amounts of balance of payments financing to many African countries under standby arrangements in support of macroeconomic reform programs. The World Bank provided financing in the form of project, sectoral, and structural adjustment lending.

The IMF, consistent with its basic mandate as a monetary institution, provided short-term balance of payments financing on terms that were not well suited to the adjustment capacity of these countries. IMF credits must be repaid in 3-7 years and interest is charged at market-related rates. Through successive standby arrangements and extensive use of other IMF credit, many African countries were able to postpone or avoid extreme economic difficulties, but very few African countries emerged from the global economic difficulties between 1973 and 1983 with comfortable balance of payments positions. In fact, quite a few ran up substantial debts to the Fund, and several accumulated substantial arrears on repayment of those debts which seriously complicated the design of adjustment programs. Lending from the World Bank Group concentrated on longer term development objectives, and most of its lending was on highly concessional terms.

A growing consensus has emerged in recent years that economic growth in Africa depends primarily on the quality of the economic policies implemented by African countries, and that the Bank and Fund have a central role to play in fostering such policies. What had been missing was a medium term focus and a mechanism for ensuring full collaboration between these two institutions in providing financing and policy advice, as well as for mobilizing additional bilateral financing. In 1985, at the Bank and Fund Annual Meetings, Secretary Baker put forward an initiative to address these problems. His proposal was discussed and modified over the following months, was endorsed by the Executive Directors of the Bank and Fund in the spring of last year, and is now being implemented.

A key element of the proposal is the use of three-year Policy Frameworks. Developed by the borrowing country with the Bank and Fund, Policy Frameworks identify problem areas and outline policies for addressing those problems. The Policy Frameworks also contain an assessment of the country's external financing needs and indicative levels of financing from the Bank and Fund. It is expected that the process will also catalyze additional bilateral assistance for the borrowing countries.

Once the Policy Frameworks are agreed upon, the Bank and Fund negotiate independent, but related, policy-based lending programs consistent with the overall frameworks. The Fund established a new Structural Adjustment Facility (SAF), which is funded by SDR 2.7 billion (roughly $3.4 billion at current exchange rates) in reflows from earlier Trust Fund loans, to implement the new scheme. World Bank lending to be associated with this Facility will come from IDA, more specifically from the Eighth Replenishment that was agreed upon in December 1986. Thus far, the IMF has made loans totaling about SDR 375 million ($473 million) over three years to eleven African countries from the SAF. World Bank commitments of concessional resources to these eleven countries totalled $625 million in FY 1987.

The Policy Framework process has several distinct advantages over the earlier arrangements for assisting reform in Sub-Saharan Africa:

-- Its medium-term (three-year) focus is more appropriate to the economic situations of the borrowing countries.

-- It involves formulation of comprehensive internally consistent reform programs, incorporating the macroeconomic and structural adjustment policy changes formerly handled by the Bank and Fund separately.

-- The terms of the IMF financing under the SAF -- 10 years repayment, including 5 years grace, at an interest rate of one-half percent -- are better suited to these countries' financial situations.

The process of economic reform has recieved broad support and many African countries have recognized their own responsibility in meeting the challange. Over 20 African countries, representing roughly three-fourths of Sub-Saharan Africa's population and GNP, are implementing or initiating major economic reform programs. (Policy Framework Papers have been prepared for 17 of these countries.) These policies can work. Last year, for the first time this decade, income per capita in the low income Sub-Saharan African countries grew. For the entire region, food production grew at almost three percent keeping pace with the rate of population growth. While climatic factors were partly responsible for these developments, better economic policies were a necessary component.

However, given the severity of the situation in the region better economic policies alone will not be sufficient. These countries will also require concessional assistance in support of their economic reform efforts, if the challenge is to be met and economic adjustment is to take place in a context of growth. The IDA VIII replenishment is essential in this respect because it is specifically designed to provide support to low income, Sub-Saharan African countries undertaking economic reform efforts.

As most of you may know, IDA makes long term, highly concessional credits to the world's poorest countries which are experiencing widespread poverty, have an underdeveloped resource base and limited creditworthiness. IDA has become the single largest source of concessional development assistance to these countries. In 1986, donors agreed upon a very substantial replenishment of IDA's resources -- $12.4 billion for the three year period beginning in July 1987. During these negotiations, one of the Administration's key goals was to reach agreement among donors to give highest priority in the allocation of IDA resources to Sub-Saharan Africa. This was successfully accomplished: half of the IDA VIII replenishment -- more than $6 billion is targetted for Sub-Saharan Africa.

Another key objective of the Administration during the IDA VIII replenishment negotiations was to reach agreement that an increasing proportion of IDA funds would be used to support the policy reform process. There was general recognition among donors during the negotiations that, while IDA's traditional role of providing resources to support investment is essential, there is a growing requirement for adjustment support lending, especially in Africa. As a result of these negotiations, adjustment support as a proportion of total lending will increase from 14 percent in IDA VII to 25-30 percent in IDA VIII. For many African countries, more than one half of IDA VIII support is likely to take the form of fast disbursing adjustment lending. Economic reforms will take time to produce concrete results, however. The past policy distortions which are addressed by these programs are deep-seated and their removal will have significant political and social costs. The Administration believes that IDA VIII is an extremely important vehicle for providing continued support to assist countries in reorienting their economies and that the replenishment is critical to the success of the economic reform process in Sub-Saharan Africa.

I want to stress that, while there is an increased emphasis on policy based lending in IDA VIII, we still expect IDA to be a significant lender both to the "directly poverty oriented sectors" -- rural and urban development, education and health -- and to other sectors (e.g. agriculture) where benefits have gone to the poor. Roughly 25 percent of IDA VIII will be used for policy based lending, leaving more than $9 billion for projects. (This is in contrast to IDA VII where $8.2 billion is for projects).

You should also be aware that structural adjustment lending will help alleviate poverty. While the institutional, political difficulties, social costs and financial requirements to sustain the adjustment process are extensive and present an enormous challenge, the costs of failing to adjust are far more damaging to the poor in the long-run. Reform policies should reduce or eliminate economic distortions which in most instances discriminate against the rural poor. In general, adjustment programs will have a positive income re-distribution effect to the rural sector by correcting that discrimination. In addition, shifts in public expenditures resulting from adjustment programs -- from capital intensive investments in large-scale, urban based projects to low cost programs reaching a large number of people -- strengthen the poverty focus of government programs.

The World Bank management is keenly aware of the impact of adjustment on the world's poorest and mindful of the need to assure that such structural adjustment lending will bring benefits to the poor. At the meeting of the Development Committee in April of this year, President Conable reiterated that the alleviation of world poverty through an accelerated process of economic development remains a vital task of the Bank.

In order to ensure the Bank's increased attention to poverty alleviation in the design of assistance strategies and lending operations, management appointed a task force to rethink the Bank's approach toward poverty. The recommendations for a detailed strenghthening of the Bank's poverty programs will be discussed with the Board of Directors in fiscal 1988. The areas being studied for strengthening the Bank's poverty programs include:

-- increased analysis of the social effects of adjustment in both operational work and Pank research,

-- help to governments in designing adjustment programs that, to the extent possible, protect the poor, notably through improvements in the efficiency and targetting of social expenditures,

-- increased collaboration with other agencies, both official and non-governmental organizations (NGOs) in addressing poverty concerns in the context of adjustment by supporting compensatory nutrition and employment programs for the poor. Collaboration with NGOs is being stepped up: NGOs are now involved directly in more than 100 Bank projects covering urban upgrading, low-cost shelter, agricultural cooperatives, village water supplies, and primary health care.

President Conable has taken personal interest in the work of the Task Force. Clearly the Bank has a commitment to the strengthening of its poverty programs. The Administration looks forward to reviewing the recommendations of this Task Force.

In negotiating the IDA VIII replenishment, the Administration also supported the continued use of IDA resources to support market oriented policies in the poorest countries, including the development of the private sector and privatization. In low income countries, most of the private sector activity is agriculture. IDA lending for agriculture and rural development accounts for a 40 percent share of total lending.

Increased use of structural and sector adjustment loans and loans for industrial projects have emphasized the efficiency of both public and private enterprise operations. In an increasing number of African countries, divestiture of public enterprises and liquidations, where deemed necessary have been explicit conditions for IDA credits. IDA has supported, or is in the process of preparing, approximately 45 projects with privatization as a component. IDA has also encouraged greater private sector participation through leasing, managment contracts and joint ventures. More indirectly, by improving efficiency in the public sector and redressing its size, the borrowing requirements on that sector are reduced, thereby creating more room for private sector borrowing. In addition, IDA works to encourage the removal of trade barriers, a liberalization in the climate for foreign investment, and generally to promoting a responsive regulatory and economic environment in order to provide a more conducive atmosphere for private sector activity.

You have asked about the success IDA has in reaching the poor. I would like to give four examples where lending is directly targetted towards the needs of some of the poorest people in the world's least-developed countries.

-- In Burundi, an IDA credit of $12.8 million is helping finance the second phase of a long-term reforestation program. Reforestation is a vital matter in Burundi, as the country is densely populated, hilly, and has high rainfall. This project will aid the poor by helping meet their rapidly growing need for wood, and protect the environment. This will be accomplished by planting about 3,500 hectares of eucalyptus and 1,500 hectares of pine plantations in western Burundi and establishing 2,000 hectares of woodlots all over the country. About 60,000 rural families, or around eight percent of the farming community, will benefit from increased supplies of fuelwood and building poles. In addition, 60,000 people in (Bujumbura) will benefit from greater charcoal availability.

-- In Mali, an IDA credit of $19.5 million for the (Mopti) Area Development Project will improve the control of flooding and increase production of rice, milk, and cattle. Mali is a chronic food deficit nation, due to the highly variable rainfall of the Sahel area and poor soils. Major components of this project include hydraulic works in rice growing areas, credit for small farmers, agricultural inputs, adult literacy and rural health programs, use of animal traction, range and pasture management, stockwater development, and rice seed adaptive research and quality control.

-- In Uganda, an IDA credit of $10.0 million will promote that troubled nation's agricultural rehabilitation program by providing input supplies, training, civil works, vehicles, and research. The project will boost extension services, tsetse fly control, and agricultural research, thereby benefitting substantially 430,000 families by increasing their output and health. Most of these families are small farmers and fishermen. Uganda is a fertile country with considerable potential for higher agricultural output.

-- In Burkina Faso, where fertilizers are very important as soils are generally thin and poor in nutrients, an IDA credit of $13.7 million is helping provide imported fertilizers, primarily for cereal production. This should lead to sharply higher food production by poor small farmers for local consumption. Fertilizer subsidies will be eliminated, thereby reducing government budgetary pressures. A credit component will help small farmers finance fertilizer purchases.

IDA lending has clearly been crucial in supporting the poorest countries in this world. It has extended over $11 billion in credits to the countries in Africa since its creation and has increasingly provided its resources to those countries with per capita incomes below $400. Over 94 percent of IDA credits were extended to countries with per capita incomes below $400. IDA is a sound, cost effective vehicle for the U.S. to assist countries where we have strong humanitarian, strategic and economic interests. For every dollar contributed by the U.S., other donors will provide $3.31. The IDA VIII replenishment clearly has placed more emphasis on economic performance, the needs of Sub-Saharan Africa, and on support for policy reform and structural adjustment.

The Administration has requested authorization and appropriation for an annual contribution of $958.3 million for a total of $2,875 million over three years for the U.S. share in the IDA VIII replenishment. Our share represents 23 percent of the total replenishment, down from 25 percent in IDA VII and from 42 percent of the initial subscription in 1960. Our request results from a carefully considered judgement that this funding level best reflects three basic funding criteria: (1) a funding level that is adequate to maintain IDA as an effective instrument for the promotion of economic reform and development, (2) a funding level that is sensitive to our overall budgetary situation and (3) a funding level that is realistic in light of previous difficulties in obtaining IDA appropriations.

U.S. participation in the Eighth Replenishment is of vital importance for IDA recipients and the agreement cannot go into effect without our contribution. In addition, other donors are also entitled to pro rata reduction should the U.S. fail to make its full contribution. Thus, the Administration considers it a matter of urgency that legislation to permit U.S. participation be adopted as promptly as possible. I therefore strongly recommend that high priority be given to the proposed legislation to fully authorize and appropriate the U.S. contribution to IDA VIII.

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RESPONSES TO QUESTIONS FOR JAMES W. CONROW

QUESTIONS SUBMITTED BY HON. TONY P. HALL

Question. The administration argued very effectively during the IDA VIII negotiations for a reduction of staff at the World Bank, and as we have seen, the reorganization will result in a staff cut of 300 or more. While it is important the Bank eliminate unnecessary staff, there are concerns that arise with reductions of this magnitude. Since poverty focused lending must be staff intensive if it is to be effective, staff reductions could weaken the Bank's poverty lending. Are you concerned about this possibility, and if so, what steps have you taken to ensure that the staff cutbacks will not adversely effect poverty lending?

Answer. Staff cuts stemming from the World Bank's reorganization are aimed at improving the Bank's effectiveness and responsiveness to borrowers and reducing unnecessary administrative costs. Excessive or redundant staff make for an inefficient bureaucracy with too many layers in the decision making process. In my judgment, the staff cuts were both necessary and sensible given the growth in the size of the institution over time. The cuts represent roughly 5 percent of total staff and are highly unlikely to have a negative impact on poverty lending.

The reorganization has also resulted in the Bank taking steps to strengthen its performance in the area of poverty lending. The Bank's new Strategic Planning and Review Department will take over the task of preparing an annual review of the Bank's poverty focus and, in other ways, ensure that the Bank as a whole is giving high priority to the poverty impact of its operations. In addition, the Bank has recently established a new Population and Human Resources Department to integrate poverty, employment, education, health, population, and nutrition work. This department will also contain a division on Women in Development.

Question. Recently, there has been discussion both inside and outside the Bank concerning the possibility of expanding the use of quick-disbursing social sector loans as a means of minimizing the adverse effects of policy lending and of directly assisting the poor. These loans would be for the education or health sectors, for example, and would restructure the sector in a way that made it more responsive to the need of the poor. Does the administration support an expanded use of these social sector loans?

Answer. The issue of "protecting the poor during periods of adjustment" was discussed by World Bank President Conable and Ministers, including Secretary Baker, at the April 10, 1987 meeting of the Development Committee. There was agreement that increased flows and more targeted use of resources, both external and domestic, would help to alleviate the plight of the poor in the process of adjustment.

The administration believes that quick disbursing social sector loans to ameliorate the social costs of adjustment and/or improve the efficiency of existing social programs can be effective components of programs to help the poorest people in developing countries. We therefore support the use of such lending as long as it is well-targeted and used in an overall economic framework which promotes an improved policy environment. Several such projects are currently in preparation.

The $10 million IDA Emergency Social Fund Project for Bolivia approved by the executive board on June 23rd is a good example of a creative quick disbursing operation which was prepared rapidly by the Bank to address urgent social problems. As you are aware, the Bolivian government has since August 1985, been engaged in a difficult effort to fundamentally alter the structure of its economy and prepare the necessary foundation for sustainable growth. The IDA credit is targeted on those suffering most from the effects of the economic crisis and the adjustment process, particularly those affected by the collapse of the mining industry. It will create about 20,000 man-years of employment in sub projects—including road improvement, erosion control, and urban upgrading—which will improve infrastructure and the environment.

Question. In the multilateral development bank replenishment authorization bill as approved by the House Banking Subcommittee on International Development Institutions and Finance, there were recommendations for increased cooperation between the World Bank and nongovernmental organizations. Specifically, an amendment offered by Mr. Bereuter called for the establishment of a Grassroots Collaboration Program which would encourage NGO's to participate in all stages of World Bank project planning and country strategy activities, increase their involvement in project implementation and monitoring, support NGO-operated microenterprise credit programs and provide funds to strengthen NGO's and their cooperation with the World Bank. Does the administration support this initiative, and if so, what steps will the U.S. Executive Director be taking to see that such a program is established?

Answer. The administration generally supports the concept of a Grassroots Collaborative Program offered by Mr. Bereuter. We think Bank/NGO interplay should be a normal feature of Bank operations geared to reducing poverty I would note that this is an important subject of the Bank's Poverty Task Force and we understand the Bank is focusing on improving its internal structure, as well as extending its operational contacts, for dealing with NGO's. Mr. Bereuter idea is interesting and we are willing to pass it on to the Bank's Poverty Task Force for their consideration.

With regard to microenterprises, the Bank has recently reviewed its lending policies to microenterprises. The review concluded that the Bank should continue to provide some funding for microenterprises, but that it should concentrate its primary efforts on the policy level by seeking to remove distortions which prevent private funding of microenterprises. In this context, the Bank is seeking to increase the access of small-scale enterpreneurs to normal banking and other financial intermediares which have the capacity to provide funding on an adequate scale. However, we are willing to explore this matter further with Bank management.

PREPARED STATEMENT OF JOHN W. MELLOR, DIRECTOR, INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE

The bulk of African countries are now started well down the road of the structural adjustments so essentially to reaching eventual self-sustaining development. Exchange rates are being realigned, agricultural prices in country after country are now above international prices, markets are operating more freely. The policy changes are creating a more favorable environment for projects in rural development and poverty alleviation that are the essence of growth and development. These projects now need to be financed so that policy reforms will have an effect.

In addition, structural adjustment necessarily bears heavily on the poor for no other reason than the component of higher food prices -- the major item of expenditure by the poorest people. In the name of equity expansion of rural development projects must be pursued beyond the capacity of the poorer countries to pursue on commercial terms.

Having said this we must recognize that given the prominent role of the foreign assistance community in Africa over the past decade, it is incorrect to think that this plethora of bad policies and bad projects was entirely at the instigation of the African people and governments. A reassessment and learning by doing is just as necessary for the donors as the recipients. The World Bank has a wealth of experience to draw upon and that needs to be done in a comparative context. Probably the largest analytical effort of its kind is underway in the World Bank, which is doing just that for the agricultural sector. Managing Agricultural Development in Africa (MADIA) involves intensive analysis of 8 carefully selected donor agencies and recipient countries to elicit lessons from the past as a basis for improved performance in the future. USAID is a leading and prominent participant in this constructive effort. The US Congress may want to follow its progress and consider its conclusions. The point of course is that IDA can use its funding more effectively in the future precisely because the World Bank has the capacity for such analysis.

What simple lessons can we now draw? First, macro and micro policy reforms go hand in hand. Second, national capacities for policy analysis must be built. Third, technological change is possible in African agriculture but it requires a far better directed effort with greater attention to technical competence. Fourth, governments need to draw back on inessential activities so that they can provide the essential public goods of education, roads and health that are so essential to growth. And finally, foreign assistance like development itself, has no answers -- it is a process in search of competitive effort that requires humility and open-mindedness. The congressional oversight process can contribute greatly by encouraging these attitudes and processes.

RESPONSES TO QUESTIONS FOR JOHN MELLOR

QUESTIONS SUBMITTED BY HON. MICKEY LELAND

Question. If one uses the amount of IDA lending that goes to poor countries or the amount of lending that goes to so-called poverty sectors, such as education and health, as indicators of IDA's commitment to poverty lending, it appears that IDA is channeling as much or more of its aid for poverty needs as in the past. At the same time, however, many outside observers are concerned about a decreasing focus on poverty within IDA in recent years. Could you explain exactly what these concerns are? Do you feel that Mr. Conable is taking adequate steps to address these concerns?

Answer. It is correct that IDA has maintained the flow of money to projects which are considered directly oriented to poverty. In fact, the bilateral donors have in general substantially reduced their allocations in the poverty direction during the past several years. The peak of such lending came in the late 1970's and very early 1980's. IDA has maintained that flow somewhat more fully. Notwithstanding IDA's continued expenditures on poverty-oriented programs, there is no question that the general tenor in the donor community, a tenor which is affecting the World Bank as well, is toward more program lending for policy change with much less explicit concern for poverty issues. The switch in emphasis is to some extent called for, in that the poverty programs themselves have been prejudicied by poor macro-policy. Thus, the macro-policies do have to be improved. It must be remembered, however, that the purpose of good macro-policy is to make projects, including specific projects for the poor, more effective. There needs to be a continuation of the institution building which is so essential to overall development and to poverty programs more generally. Thus, there is grounds for concern about the balance in the lending program.

You asked specifically whether Mr. Conable is taking adequate steps to address these concerns—there is no question that Mr. Conable is absolutely and personally committed to the poverty-oriented programs. He has continually made that clear in public statements and I believe in statements to his staff as well. He, too, will of course have to pay attention to this difficult problem of balance which I have indicated above.

Question. As IDA continues to place more emphasis on policy reform lending and somewhat less on project lending, what steps would you recommend that the Bank take to ensure that the needs of the poor continue to be met? Specifically, how could policy reform packages be better designed to address poverty concerns in Africa?

Answer. There are two efforts, which I would emphasize, in seeing policy reform packages that are better design to address poverty concerns in Africa: First, one must recognize that one of the effects of the policy reforms is to increase the price of food. Even in Africa, the poorest people, and even in rural areas, are net purchasers of food. The extent of this net purchasing of food is now being documented clearly and it is somewhat contrary to the conventional wisdom that the poor in rural areas of Africa are producing all the food they eat. As net purchasers of food, the poor are hurt by rising agricultural prices. Thus, one does need to have some specific concern for this issue. Use of food aid in rural public works programs is an excellent way to mitigate this problem. Those, who are net purchasers of food, must of course earn the income to purchase that food. Rural public works programs provide a means of increasing that income to match higher food prices. An important reform that is needed in food aid is to relate it more directly to building the infrastructure which will provide later growth in agricultural incomes and the quantity of food available. This calls for direct cooperation between the World Bank and the World Food Programme on the one hand, and within the bilateral programs between their food aid programs and their capital-transfer programs.

Second, there needs to be a specific attention to the institutional development needed for getting agriculture moving, which is the most important long-run way of improving the lot of the poor—it produces the food they consume and makes more jobs for them. And, there needs to be further institutional development in the poverty-oriented programs. One reason that the poverty-oriented programs have come into some disrepute in the last several years is that there was failure to recognize that helping the poor is more intensive in its requirements for institutions and for trained people to run those institutions than the more general-run type of development programs. For example, a credit program design to reach very poor people makes very small loans per person, and therefore requires considerable administration. In addition, a loan program must have a high-repayment rate if it is to succeed in rolling money over and if it is to introduce the poor to the kinds of fiscal discipline which is so necessary, if they are to arise out of their poverty. And yet, the

administration is costly and difficult to develop. That has not had sufficient attention. The World Bank and other institutions need to give greater attention to those difficult problems.

PREPARED STATEMENT OF CAROL LANCASTER, VISITING FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS

Mr. Chairman, I want to thank you and your collegues for inviting me to participate in this hearing today and share with you some thoughts on the International Development Association of the World Bank. The topic of this hearing is an important one - an examination of the role of IDA in Africa. And this Committee is surely among the first to call attention to the fact that the US contribution to IDA is very much an African issue. An increasing proportion of IDA lending has been allocated to Africa in recent years. During the last (the Seventh) replenishment of IDA, 36% of all IDA lending went to Africa, amounting to $1.1 billion in 1986 alone. If we add loans from the Special Facility for Africa, set up several years ago to augment loans to Africa, Africa received a total of $1.7 billion in concessional loans last year. As a result, Africa has become the largest regional recipient of all concessional lending by the World Bank, receiving 45% of such lending during the past several years. Under the eighth IDA replenishment of $12.4 billion over three years, Africa is also scheduled to receive 45% of all lending.

IDA is an African issue not just because it has become the principal region receiving IDA loans. IDA has also become a major source of concessional financing for many of the poorest countries in Africa and the importance of IDA is likely to grow as the US and possibly other bilateral aid donors cut back on their aid programs in African countries. Last year alone, the US cut its aid to Africa by 25% -- the largest cut taken in any world region. Last year's cuts and further US cuts likely again this year make IDA even more important as a source of concessional finance in Africa.

IDA and Policy-based Lending

IDA is important to the low income countries of Africa not just because of the quantity of lending it provides but also because of the quality of lending it undertakes, particularly the fast dispersing, policy-based lending which has become a major element in IDA activities since the beginning of the 1980's. It is IDA's policy-based lending which I propose to examine today, beginning by asking what it is, why has it gained such prominance, what have been its successes and failures and what issues it has raised.

Policy-based lending involves a transfer of resources from aid donors in support of policy changes in the recipient country. There are two principal types of such loans by IDA -- Structural Adjustment Loans (SAL's) which usually involve a wide range of macro-economic policy changes by recipient governments and sector loans in which policy changes are confined to a particular sector, for example, agriculture. The three principal elements in these loans are the activities financed, the types of policy changes and the relationship between the two. Lending in support of policy change usually involves fast dispersing monies which can be used to finance imports by the borrowing country. This type of lending contrasts with loans to finance specific projects which usually disperse over a relatively long period of time (often several years) to cover costs associated with the project. Many African countries facing severe shortages in foreign exchange which have forced them to cut back sharply on imports of consumption goods, spare parts and raw materials needed for productive activities and goods and services necessary for investment. Fast dispersing loans for balance of payments help meet urgent and immediate needs.

The types of policy changes supported by these loans vary a great deal from country to country. They include reforms aimed at establishing a balance between imports and exports through exchange rate devaluation; reducing domestic inflation and government budgetary deficits through decreases in government expenditures and credit and reforms in tax systems; improving the efficiency of domestic resource utilization and increasing incentives for producers through raising producer prices, eliminating subsidies, liberalizing domestic and international trade, and eliminating wage and price controls; and increasing the efficiency of government through streamlining or eliminating inefficient or wasteful public agencies while upgrading the institutional capabilities of others.

There has been some confusion about the relationship between policy-based lending and the policy changes undertaken by recipient governments. Major lenders, including IDA, argue that policy-based lending programs are the outgrowth of a "policy dialogue" between lenders and borrowers in which both exchange views and analyses and reach a consensus on needed reforms. The borrowing government, committed to such reforms, then carries them out. This is, of course, the ideal. In reality, it may well be more commonly the case that governments, desperate for foreign exchange, agree to policy reforms recommended by lenders as a means of obtaining that foreign exchange whether they believe in such reforms or not. In this latter case, the implementation of agreed reforms may be partial or temporary. There have been plenty of examples of both in Africa to date.

Another element in the interrelationship between policy-based lending and policy reform is role of such lending in promoting reforms. Clearly, the prospect of receiving sizeable loans of foreign exchange is an incentive for governments to undertake needed reforms. More recently, this connection has been made more explicit by Africans and some Western development experts who have begun to argue that there should be a "compact" between lenders and reforming governments in which lenders assume an obligation to provide loans and grants to governments undertaking reforms. This argument raises the legitimate question of why should developed countries or international agencies in effect pay developing countries to undertake reforms which are very much in the latters' interest.

The link between policy based lending and policy reform should not be regarded as one of obligation. However, in the case of many low income African countries, access to adequate levels of foreign exchange is a necessity if reforms are to be successful in restoring growth. Most African countries, reliant on the production and export of a few primary products and the import of almost every thing else, have suffered a sharp deterioration in their terms of trade since the beginning of the 1980's, i.e., the value of their exports has fallen with the weakening of many primary commodity markets while the prices of their imports have often risen. They have become even poorer in relation to the rest of the world and, as a result, have fewer resources to support ongoing production and investment necessary for future growth. In addition, their economies, based as they are on the export of a few commodities, cannot easily or quickly shift to the production and export of alternative and more lucrative goods. Many countries have certainly wasted their resources in the past with inefficient government policies. Changing those policies to promote greater efficiency is necessary but not sufficient to ensure future growth. Africans need capital to import the goods and undertake the activities, such as establishing extension services for agricultural producers now assured of a remunerative price for their products, which will lead to recovery and growth. Without access to adequate financial resources, recovery and growth will doubtless be long and painful for many African countries and in some cases, may not occur at all as population growth, continued deterioration in their terms of trade and the burden of debt repayments outrun their abilities to mobilize and invest their own limited resources. And it is not encouraging that over the years 1981 to 1984, net public capital flows to Sub-saharan Africa have dropped from $7 billion to less than $3 billion.

From Basic Human Needs to Policy-based Lending

The focus of IDA lending and that of major bilateral aid donors, including the United States, during much of the 1970's was in support of improving the basic human needs of the poor in developing countries. Since the beginning of the 1980's, the US, IDA and others have quietly moved away from this emphasis, shifting increasingly towards policy-based lending. Last year, such lending amounted to 60% of all World Bank concessional lending in Africa. The Bank has not abandoned poverty-based or basic human needs projects but its current emphasis is certainly on lending in support of policy reform. Why this change from the focus of the 1970's?

A number of factors have combined to promote the current emphasis in World Bank concessional lending in Africa. First, as a result of their policy failures and external shocks, economic conditions have deteriorated so badly in many African countries -- a deterioration which began to be evident in the late 1970's and early 1980's. African governments have frequently found themselves unable to finance the recurrant costs of existing basic human needs projects (or other projects). Medicines have vanished from rural clinics; books are no longer available in primary schools (and in a number of countries, have become scarce in universities as well). Roads have often deteriorated so badly as to become unusable for poor farmers and others alike. In the face of these problems with existing projects and assets, it increasingly seemed questionable whether investments in such projects should continue to rise rapidly. Indeed, a number of aid donors found that their piplelines of obligated but undispersed funds for such projects were growing embarassingly large as recipient governments struggled to find the counterpart funds from their own strained budgets to contribute their part to the projects' financing. What African governments most needed as their balance of payments crisis worsened was import financing to enable maintain existing assets, projects and levels of production.

At the same time, it was increasingly recognized by aid donors and later by African officials that the contribution of individual projects to development was likely to be limited if the policy environment itself discouraged growth. Providing farmers with improved seeds, for example, might not result in expanded production if the farmer was forced to sell his product at uneconomic prices to government agencies.

Finally, in addition to the need for African governments to undertake policy changes which would ensure a more economically efficient use of national resources, the oil shocks and collapse in commodity prices which occurred in the 1970's and early 1980's, plus the later drying up of commercial bank lending to Africa pointed to the need for African governments to restructure their economies if they were to recover and grow economically. They needed to expand and diversify their exports, increase their food production, alter the level and content of their imports and reorient their investments, undertake other major shifts in the use of their resources.

Successes and Failures of Policy-based Lending

Anyone who is willing to provide a definitive list of successes or even failures in policy-based lending is tempting fate. Today's success often turns out to be tomorrow's failure as external shocks or internal political pressures force governments to abandon programs of policy reform. The recent abandonment of its ambitious and painful reform program by the government of Zambia is only the most recent example of the sudden turns and reversals that can occur in the process of policy reform. Similarly, governments which ignore or resist needed policy changes can alter their positions and adopt stringent reform programs, as the recent cases of Nigeria and Tanzania.

It may be too soon to seek definitive successes or failures in policy-based lending because policy reform is a process, not a one time event. And in the African context, it is likely to be a long process given the array of painful changes which appear to be needed, the variety of factors which can affect the success of such reforms, not all of which are amenable to influence by African governments, and the inexperience and lack of knowledge of all of us -- Africans and development experts alike -- as to what works ano what is sustainable.

With these caveats, it is possible to identify a number of countries which have initiated and maintained reform programs over several years and where benefits in terms of renewed growth and production can be seen. Ghana's reform program is among the most impressive and sustained, involving a drastic devaluation of the cedi, improved prices for agricultural producers, reduction or elimination of subsidies and an array of other policies. Growth rates are now positive in Ghana (even in per capita terms) and food and agricultural export production is up. The World Bank cites a number of other countries undertaking ambitious reforms, including Senegal, Niger, Guinea Bissau, Guinea, Nigeria, the Ivory Coast, Tanzania, Kenya, Somalia, Zaire, and Mozambique. A total of twenty two countries in Africa are now undertaking adjustment programs with IDA support. Some, like Zambia and the Sudan, have found it impossible to sustain reforms and have reverted to earlier policies. It is not impossible that others may join them if external conditions deteriorate or if internal political pressures become too threatening to the political leadership.

Issues in Policy-based Lending

A number of issues have arisen as a result of the shift by aid donors to policy-based lending. First is the question whether such lending worsens or ignores the plight of the poor in developing countries. This is an important question and cannot be answered satisfactorily except in terms of specific lending programs in individual countries. However, several general points are worth making in approaching this issue. As the World Bank and other aid donors point out, countries in Africa and elsewhere facing the need to adjust their economies to a deterioration in their external situation will make that adjustment either in an orderly fashion with a planned program of reform or in a disorderly fashion with prevailing political elites attempting to protect their own interests, whatever the costs to the poor. Where reforms have imposed social costs on the poor, it is worth remembering that the poor might well have been worse off in the absence of reforms. (This is not to argue that efforts should not be made to protect the interests of the poor in reform programs.)

A further relevant point in the case of Africa is the following: those who in general are most adversely affected by policy reforms are those who rely on wage incomes (and thus suffer when subsidies on consumer goods rise), who spend a significant proportion of their incomes on imported goods (the prices of which also rise in a devaluation), and those who benefit from government financed social services such as health care or education. In Africa, these individuals tend to be urban wage earners, usually among the most advantaged of their societies. The majority of poor are small farmers who produce most of their own food, can rarely afford imports and who may have limited access to social services. The thrust of policy reforms in Africa is to shift income to these groups away from the more advantaged urban wage earners, thus benefiting the poor majority. This does not mean that some groups of poor will not be adversely affected by such reforms, particularly the urban poor. (Unlike many other parts of the developing world, there are relatively few landless rural wage laborers in Africa.)

There is clearly scope for IDA and other aid donors to encourage African governments to protect social service expenditures which benefit their poor from budgetary cuts, such as primary education and preventative health care, or to undertake compensatory programs for adversely affected poor (e.g., food for work or nutrition intervention). Indeed, there is some evidence that IDA is beginning to develop programs of this type, possibly linking up with non-governmental development organizations in recipient countries or from abroad. The impact of policy-based lending on the poor is complex and one worth continuing attention.

Another issue raised by policy-based lending is the capability of donors, including the World Bank, to offer advice on policy reforms which is workable, appropriate and sustainable by borrowing governments. It cannot be denied that policy-based lending is highly interventionist (even more than basic human needs lending). It should involve extensive knowledge on the part of lenders of local economic and political conditions in borrowing countries. The World Bank has been somewhat disadvantaged in this regard with its reliance on short-term missions to gather information and negotiate loans. Although it has resident representatives in most African countries, it has tended not to rely on them in the past in developing its information and positions. It remains to be seen whether the recent reorganization of the World Bank will produce a larger number of officers in Washington trained for policy based lending and a greater reliance on field staff in developing such programs.

In my view, the basic issue in policy-based lending is a more fundamental one and it is political. The thrust of policy reforms in Africa, as has already been pointed out, is to shift incomes from the powerful (i.e., urban political elites) to the powerless (i.e., the mass of unorganized, rural poor). How is such a shift to be sustained over the long run in political systems where the rural poor have almost no voice, influence or ability to protect their gains if and when foreign aid donors' attention turns elsewhere? I do not have an answer to this question. And as far as I can tell, neither do foreign aid donors, including IDA.

RESPONSES TO QUESTIONS FOR CAROL LANCASTER

QUESTIONS SUBMITTED BY HON. MICKEY LELAND

Question. What steps can IDA take to make policy negotiations on reform more often a dialog between IDA and the recipient country and less often a presentation of criteria chosen by IDA that the recipient country will follow in order to obtain badly needed foreign currency?

Answer. The degree of dialog rather than the use of leverage in negotiations between IDA and a recipient country government depends on the knowledge, flexibility, and sensitivity of Bank staff as well as the willingness to dialog on the part of recipient government officials. It may be that a greater reliance by the Bank on capable field representatives for advice will ensure a well informed and hopefully sensitive negotiating team. However, it must be recognized that in some cases, a dialog may not be possible even with the best of knowledge and sensitivity on the part of Bank staff. There are times when African government officials are reluctant to adopt policy reforms or are unconvinced of their merits. It is important that pressures on the Bank to undertake sectoral or structural adjustment loans not make Bank staff feel that they must make loans where recipient governments lack commitment to carry out necessary reforms. No loans may be better than poor loans.

Question. Critics of policy reform charge that while the long-term effects of reform might benefit the poor, in the short run is characterized by reductions in basic services such as health and education and drastic increases in the prices of essentials like food. Are these criticisms fair? And do you think that an increased emphasis on quick disbursing loans for social sectors would be an effective way to minimize the adverse affects of policy reform?

Answer. Food or other prices in African countries are frequently kept artificially low because of subsidies, import policies, and other actions by governments. If national resources are to be used more efficiently, it may be necessary to reduce or eliminate such subsidies. Bread prices are so low in Egypt, for example, that people feed bread to their animals. However, such adjustments should be gradual to permit an adjustment by those affected. Fast dispersing aid could be used to ease such adjustments but should not be used to avoid them. In terms of government expenditures on social services, such as basic health and education, it is clear that in many parts of Africa, governments are having difficulty in financing the recurrent costs of such services—where they have not been eroded by a lack of necessary materials such as books, papers, medicines, and so on. Governments are likely to have even more trouble in the immediate future in expanding such services to keep up with rapidly growing populations. If such services are not to be reduced in times of austerity, who is to pay? The World Bank and others have suggested that better off families be asked to pay for the education of their children—user costs. University education is free—with generous payments to students to cover expenses—in much of Africa. Fees for these services could also be raised. Poorer families would not be asked to pay. This may be useful but is unlikely to deal with the entire problem. Sectoral or structural adjustment loans might include provisions protecting expenditures on such services from sharp cuts; funds in such loans might be tied to the continuation of such expenditures. Eventually, these services may have to contract—in many countries they already have—until African economies are again able to grow and produce bouyant tax revenues.

Question. Included in this year's authorization for the IDA VIII replenishment were instructions for the U.S. executive director to propose that the impact of structural and sectoral adjustment loans on the poor be examined in more detail and that the Bank put together impact statements when making such loans. Do you feel that this would be helpful in getting the Bank to address these concerns in more detail? Do you have any further recommendations as to how the Bank could be encouraged to address the impact of its policy reform loans?

Answer. It might well be useful to press the Bank to undertake an assessment of the impact of its adjustment programs on the poor. It could help the Bank to minimize the impact on the poor and could help inform borrowing governments on the problem and focus attention on ways to deal with it. Such assessments should be done quickly so as not to undermine one of the major advantages of adjustment loans; that is, that they are relatively quick dispersing.

Question. As part of the recent reorganization at the World Bank, there have been significant staff cuts—perhaps as many as 300 employees or more are being eliminated. Do you have any concerns that this might adversely affect IDA's ability to implement effective policy reform packages, particularly concerning the impact of policy reform on the poor?

Answer. The Bank's reorganization has apparently been prolonged and painful. It is my understanding that the reform was in part intended to equip the Bank better to implement policy reform programs by upgrading staff with the appropriate skills and training others in the appropriate skills. However, it is certainly too soon to say whether the Bank's reorganization will have a beneficial impact on its adjustment lending or its ability to assess the impact of that lending on the poor. I am not aware of any special aspects of the reorganization intended to affect the Bank's ability to assess the impact of its activities on the poor in borrowing countries.

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